TOOKE AND NEWMARCH

A HISTORY OF PRICES

AND OF

THE STATE OF THE CIRCULATION

FROM

1792 to 1856

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A HISTORY OF PRICES,

AND OF

THE STATE OF THE CIRCULATION,

IN 1838 AND 1839,

WITH

REMARKS ON THE CORN LAWS,

AND

ON SOME OF THE ALTERATIONS PROPOSED IN OUR BANKING SYSTEM.

BY

THOMAS TOOKE, ESQ. F.R.S.

BEING A CONTINUATION OF THE HISTORY OF PRICES, FROM 1793 TO 1837.

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INTRODUCTION.

The experience of the two years that have elapsed since the period to which the Work of which this is a continuation was brought down, namely, to the close of 1837, embraces events of considerable interest in relation to the agriculture, the manufactures, and the commerce of this country, and is strikingly illustrative of the circumstances on which variations in prices, in the rate of interest, and in the state of trade and of credit depend. A sketch, therefore, of the prominent features of the markets for produce, and of the money market, or, in other words, of the state of prices, and of the circulation, cannot but be useful, if only as a record of events in a continuous form, and in the order and connection of their occurrence, and of facts which, however important or essential to a right conclusion on the points under discussion, are apt either to escape recollection, or, if remembered, to present themselves in a confused heap, from which reasoners, on one side or the other, feel themselves at liberty to select such as suit their purpose, with the aid only of such transposition as renders particular events apparently the effect or consequence of those which in reality occurred subsequently, and vice versâ. In truth, statements of historical facts, professing to be illustrative of particular conclusions on questions relating to prices and the circulation, unless guarded by a careful reference to dates and an explanation of attendant circumstances, may be made

subservient to the most distorted views. It is my purpose in the present, as it was in the former part of this Work, to lay before the reader the most prominent of the facts relating to the state of prices and of the circulation in the period under consideration, with a careful reference to dates, and with such explanation of attendant circumstances as may enable him, if he differ from me in my conclusion, to ascertain the precise ground of difference, and to point out, consequently, the source of error in the reasoning which led to that conclusion. The order which it is proposed to pursue in this examination and explanation, as in the former part of this work, is, to pass in review,—

1. The state of prices of corn, and the circumstances connected with them.

2. The state of prices of produce other than corn.

3. The state of the circulation.

And as there are two topics which more than any other, party politics excepted, engross the attention of the public, namely, the Corn Laws and our Banking institutions, I propose to bestow some remarks upon each of them. Accordingly, some of the main points connected with the working of the corn laws will immediately follow the account which will be given of the state of the corn trade in the two last years; and a review of our banking institutions, but chiefly of the management of the Bank of England, with observations upon the defects of the existing system, and of the proposed remedies, will form the concluding part of the present work.

CHAPTER I.

ON THE CORN TRADE IN 1838 AND 1839.

SECTION 1.—*Cursory Review of the Seasons and Crops of* 1836 *and* 1837.

IN order to the more clear appreciation of the state of the corn trade in the two last years, it may be necessary to revert briefly to a few of the leading features of it in the period immediately preceding, which have been adverted to in the former part of this work.

The four consecutive seasons from 1832 to 1835 were singularly propitious to the growth of Wheat, which crop, besides being on an extended scale, and in an improved state of cultivation, probably produced more per acre, taking the kingdom throughout, than was ever before known. Among the favourable circumstances which distinguished those seasons, may be mentioned that of a prevalence, during the summer and autumnal months, of a sufficient proportion of dry weather to admit, with few and insignificant exceptions, of the whole of the harvests in the northern, as well as in the southern division, being secured in good order and with little, if any, waste. The spring crops, on the lighter soils especially, suffered from the drought of the summers, and the pastures were a good deal burnt. But the winters were singularly mild and open, with little frost, and hardly any snow, and the spring seasons genial and forward; so that, although the stocks of provender were rather short, the consumption as winter food, for cattle and sheep, was also on a reduced scale. Still the prices

of spring corn and pulse ranged above their usual proportion to wheat, and the price of barley especially approached, in an unprecedented degree, to that of wheat. The effect of this disproportionate cheapness of wheat was, in the first place, greatly to increase the relative consumption of it, or rather to apply it to consumption of an unusual description, namely, to the feeding of cattle, sheep, and pigs, besides malting for beer, and distillation; and in the next place to induce, after the harvest of 1835, when wheat reached its lowest point of depression, a diminution of the breadth of land sown with this description of grain, and a substitution of barley and oats in cases where the lands were suitable, and where the leases admitted of such substitution, or where the landlords consented to a deviation from the accustomed and stipulated rotation of crops.

It is probable that the higher range of the price of wheat in 1836 and 1837 had a tendency to restore the ordinary relative proportions of sowing in the autumn of 1837, although, perhaps, not fully to the former extent.

Previously to entering upon the description of the season of 1838, and of the harvest of that year, I will briefly advert to some particulars respecting the crops of 1836 and 1837; which, when referring to them formerly, I noticed only cursorily; because my means of appreciating the degree of their productiveness were then still imperfect, although, as far as related to the explanation of the state of markets, the general estimate which I made of them seems to have been borne out by the event.

The spring of 1836, as I have before had occasion to observe, although following a winter of no marked severity (not quite so free, however, from frost as the preceding four winters), was very cold and dry, and all vegetation was very backward,

compared with the preceding spring seasons. The wheat on the ground presented an unpromising appearance.* And this circumstance, among others, had the effect of raising the markets from their previous extreme depression. But so fallacious are the means of judging of the eventual produce from appearances in the spring, that the crops on some of the very lands of which it was confidently reported, even as late as the first week in June, that they were not likely to yield half the usual produce per acre, did, in point of fact (the weather from that time proving to be most propitious), turn out to be abundant beyond any precedent. This description applies to the south, and south-eastern, and midland districts of the kingdom. And if in all the other districts the wheat crops had equalled these, and had been equally well got in, the general produce per acre in 1836 would perhaps have equalled even that of 1834. But in some of the other parts of the kingdom, viz., in the district from Gloucestershire to the Humber, the drought of the spring and part of the summer had proved too great for the soil, and in those the crops, although well secured, did not equal those of 1834. In the more northern division of the island, the season was, upon the whole, unfavourable; but more especially in the summer and autumn of 1836, being wet, cold, and in every sense of the word, inclement. In Scotland, the wetness and inclemency of the season, during the whole progress of the harvest of 1836, from its commencement to its close in December of that year, almost equalled in description that of the season of 1816. In consequence of these drawbacks, there is reason to believe that, taking the kingdom generally, the produce per acre was below that of the average of

* See evidence of Messrs. Ellman, Sturge, Sandars, Ruding, and Cramp, before the Committee of the House of Commons on agricultural distress, in 1836.

the three preceding years, besides a diminution of the breadth of land sown with wheat. But still the stock remaining at the harvest of 1837 (although considerably reduced, compared with the stock at the harvest of 1836), was, according to all the most generally received computations, equal to several weeks' consumption beyond the time when the new crop appeared in the markets.

Section 2. — *Character of the Season in* 1838. — *Prices and estimated Produce of Wheat.*

The harvest of 1837 was the last in a series of six successive seasons in which the produce of the wheat had fully sufficed for the consumption of the kingdom, without any aid from foreign supply, beyond two comparatively insignificant quantities, entered for home consumption, viz., in 1832, and again in September, 1837. With reference to the admission of this last-mentioned quantity, I had occasion, in the former part of this Work, to make the following remark: — "It is to be observed that this admission of foreign wheat did not occur till a great part of the harvest had been secured; it was not, therefore, wanted, unless in as far as the yield of the last crop may be found insufficient to meet the demands upon it till next harvest." * This was written at the close of 1837, when opinions were still a good deal unsettled as to the productiveness of the wheat crop of that year; there having been no reports of districts presenting such abundance of acreable produce as in some of the immediately preceding seasons, but neither were there any instances mentioned of marked deficiency. It was only as approaches were made

* Vol. II. p. 262.

to the ensuing harvest that general experience, on threshing out, tended to prove that the crop throughout had not been equal in produce to the least productive of the five preceding seasons. This comparative deficiency of yield per acre, while perhaps the breadth of cultivation had not been restored to that from which it had been reduced at the close of 1835, at the same time that an unusual rate of consumption had absorbed the super-abundance of former seasons, brought the old stock that met the harvest of 1838 (which, however, was a late one) into a smaller compass than had been known for several years past. But, low as the stock of old wheat was at the harvest of 1838, yet, considering that that harvest was later, by at least a fortnight, than usual, and that no foreign corn was entered for home consumption till the middle of September, the evidence was complete that there had been sufficient fully to meet the consumption. And if the season of 1838, from its outset to the ordinary time of harvest, had been propitious, there would in all probability have been no rise, perhaps even a fall, of prices, as long as the prospects were favourable; the further course of prices being determined by what might be estimated as the result of that harvest.

But the winter, which till the second week of January, 1838, had been open and mild, then suddenly assumed a character of extraordinary rigour. The frost began on the 6th January, and on the 20th became extremely severe; Fahrenheit's thermometer indicating in the neighbourhood of London so low a degree as 5 below zero. A considerable severity of cold continued, with only occasional and short intermissions, through the greater part of February; and the whole of the spring season following was cold, raw, and backward. The extreme severity of the

frost in January gave rise to apprehension of injury to the wheats in the ground, more especially as there was no covering of snow to protect the plant. These apprehensions were proved by the event to be but too well founded. *Still, notwithstanding that the Bank of England and the country circulation were increasing, and the money market was in so easy a state, or in other words, such were the facilities of borrowing money at a very low rate of interest, as to afford the utmost scope to speculation, if the tendency to it had existed*, the advance of prices was slow, and hardly commensurate with the unfavourable appearances and reports. Thus the average prices of wheat, which in each of the months of December and January had been about 53*s*., advanced in February to 55*s*. 3*d*., and in March to 56*s*. 6*d*.; still, however, being lower than they had been in February and March, 1837, when, as may be yet in recollection, the money market was in a state of extreme restriction, and credit was very much deranged.

The wheat plant is fortunately a very hardy one; and there have been seasons when, in consequence of severe frosts in winter, there were reports of serious injury to the growing crops, which, however, by subsequent more genial weather, recovered from the injurious effects. In some instances, such was said to be the case with the wheats which had suffered from the frosts of January, 1838; while, in other instances, they never recovered at all, or only partially. There were at the same time districts in which, from difference of soil and exposure, little or no injury had been sustained; and, as may be seen by reference to contemporary reports, there was no confident anticipation of decided deficiency of produce. The spring, as usual, and I rather think as is invariably the case after winters of great severity of frost, was ungenial, and there were frosts in May, which gave rise to renewed

apprehensions, and to a consequent further, but still moderate, advance of price. As the season advanced, the weather continued its character of unpropitiousness; there were cold rains, and in northerly exposures, frosts, at the critical period of the blooming. There was here, doubtless, sufficient ground for a further rise of price, and additional grounds were afforded, both by the increasing certainty of a great reduction of stock, and by the prospect of the harvest being much later than usual, and thus entailing an extra call upon the existing low stock. So little, however, was there of the spirit of speculation at that time in the corn market, that while free wheat was advancing very slowly, there was absolutely a retrograde movement in the prices of bonded wheat in the early part of the summer of 1838. The prevalence of caution in the corn market at that time is the more especially to be remarked, because the rise of the prices of free wheat, reluctant and hardly adequate as it was to the prospect of scarcity, while bonded wheat, upon which speculation usually turns, had been retrograding, was actually, in some of the publications of the period, ascribed to the influence of the bank circulation, which appeared by the returns just then published to have been enlarged.

The weather in July, although deficient in the proportion of bright sun and high temperature that had characterised the month in the preceding years, which have been described as sunny seasons. was not considered unfavourable to the growing crops, and the markets, in consequence, were for the most part stationary during the greater part of that month, at about 68*s*. Towards the close of July, as the lateness of the harvest became a matter of certainty, and the low state of the stock was now manifest, while fears at the same time were becoming prevalent of a general de-

ficiency of the wheat crops, a decided advance took place; the average price, which in the week ending July 20., 1838, was 68*s.* 2*d.*, reached in the week ending August 24., 77*s.* And although the markets declined from that time for some weeks, the aggregate averages by which the duty is regulated attained, by the 13th September, to 73*s.*, reducing the duty to 1*s.*; at which rate the whole quantity then in bond, about 1,500,000 quarters, was entered for home consumption.

After the third week in August, the markets experienced a temporary decline of upwards of 15*s.* per quarter: the average of the week ending 21st September having fallen to 61*s.* 10*d.*; and the duty rose in October to 22*s.* 8*d.* This decline of prices is easily accounted for. The large admission on a sudden of so large a quantity of foreign wheat and flour, some of which had been long in bond, and held by persons whose patience and power of holding were nearly exhausted, naturally caused an immediate pressure of sellers. The home crops of wheat within the whole, or nearly the whole, of the southern division of the kingdom, namely, south of the Severn on one side, and of the Thames on the other, had been secured, if not in the best condition, without any material injury in the harvesting: for the weather during August, although unsettled, was not in the southern and home districts attended with heavy or continued rains. And the deficiency, on the threshing of the quantities earliest brought to market, had been found to be rather within than beyond the previous reports. Those, moreover, of the farmers whose crops had been secured in tolerable order, and were not so deficient as they had apprehended, were naturally anxious to realise prices so much higher than they had for some years past been accustomed to. These considerations are sufficient to explain the temporary reaction of the markets

in September. But the weather in the latter part of August, and through a great part of September, was very rainy, more especially in the northern division of the kingdom, where the crops being more backward, were exposed to greater injury from the inclemency of the season during the height of their harvest. Besides the injury in the harvesting, the crops of wheat in the midland and northern districts were ascertained to be deficient from previous injury in a greater degree than had been found to be the case in the southern. These circumstances occasioned a rally of the markets, which renewed their tendency upwards, and continued it through the remainder of the year; the weekly average reaching 78*s.* 4*d.* by the end of December, and attaining its greatest height, viz. 81*s.* 6*d.*, in the second week of January, 1839.

That the wheat crop of the harvest of 1838 was greatly deficient has been placed beyond all doubt by very sufficient proof. The several surveys which were instituted, the information derived from farmers of the comparative produce per acre from particular fields and districts, and the absorption of an unprecedented foreign supply, which, large as were the quantities suddenly admitted to home consumption at the lowest duty, went into consumption nearly as fast as they could be delivered, all tended to realise and surpass the worst forebodings to which the unfavourable appearances of the plant, and the unpropitious character of the weather had given rise. It proved to be the most deficient crop of any since 1816. The degree of deficiency, owing to the want of statistical returns, does not admit of being ascertained, or even estimated, with any near approach to accuracy; and the difficulty which usually attends all endeavours to obtain any clear result of the produce of the kingdom was greater in the case of 1838; because the inequality of the produce, according to the soil,

and the exposure, and the climate, existed in a most extraordinary degree. In some parts of the southern division of the kingdom, the produce was stated to be not more than one tenth deficient, compared with the three preceding years; while in the western, and midland, and northern, there were considerable districts in which the deficiency was reported to be more than one half.

According to the best materials for conjecture that I have been able to collect, taking the whole island, it is thought not to be an exaggerated estimate to set down the aggregate deficiency at one fourth, including of course the difference of yield in flour. And if the comparison were made with the three years 1832–3–4, it would probably not be less than one third, inasmuch as, independently of the acreable produce of 1837 not having been equal to that of former years, there is no doubt that the breadth sown with wheat after the harvest of 1835 was diminished; such diminution having been probably not less than one twentieth, and not more than one tenth—more nearly, however, the former than the latter.

As every part of the ground for estimate of the supply is vague, so likewise is that for an estimate of the rate of consumption. The average consumption of wheat as food for man, and consequently excluding the extra consumption of it for cattle and other purposes, in 1834–35, has been variously estimated by some as high as 8 bushels per head of the population, while by others it has been thought to be more nearly 6 bushels. This last, which appears to me the most reasonable computation, would, for the present estimated population of Britain, (being, if the ratio of increase has continued since 1831, about 18 millions of souls,) at 6 bushels each, be 13,500,000 quarters, which, with the quantity requisite for seed, would make the aggregate produce required for consumption

as food and seed about 15,000,000 of quarters, rather perhaps more than less. The produce of 1835–6–7 having been, by the excess of the two former seasons, against a bare average in 1837, probably an aggregate average of 16,000,000 of quarters, the deficiency of 1838, if taken in comparison with those three years, and estimated as one fourth less, would be 4 millions of quarters, and if taken with reference to the mere necessary consumption, would leave a deficiency of somewhat about 3 millions of quarters, as the minimum to be made up by foreign supply.

This view seems to be borne out in some degree by subsequent facts, as will be seen by the farther course of the corn markets in 1839. In the mean time, I would only remark upon the enormous variation between seasons in point of productiveness, as instanced in the harvests of 1834 and 1838.

There is reason to believe, from the surveys at the time, from concurrent testimony of farmers, and from the large quantities of the wheat of 1834 which were in the markets during the two or three following years, notwithstanding the extra consumption, (not only as may be supposed by the population being in the fullest employ at good wages, but for cattle-feeding and other unusual purposes,) that the produce of that crop was more nearly a third than a quarter, that is, more nearly 5 millions than between 3 and 4 millions of quarters, above an ordinary crop. The difference, therefore, between the crops of 1834 and 1838 must have been something like 7 to 8 millions of quarters.

Section 3. — *Character of the Season of* 1839. — *Prices and estimated Produce of Wheat.*

The weather in January, 1839, and in the remaining winter months, was not characterised by any thing like the severity of the corresponding season in 1838. This was so far fortunate, because whatever may be thought of the effects of severe winters on the crops in the ground (and I believe that they are generally injurious), there can be no doubt that they have the effect of increasing the consumption of dry food, if only as provender for cattle; and thus directly or indirectly affecting the price of wheat. But the spring of 1839 was equally backward; and in May, more especially about the middle of that month, the weather was extremely inclement for the season: snow fell, even in the neighbourhood of London, and several nights were marked with an extraordinary degree of frost. This character of the season led to some apprehension that injury might be sustained from it by the wheat crops.

Partly from this cause, and partly from the increasing impression of the low state of the stocks of wheat in the country, which rendered the prospect of the growing crops a matter of peculiar interest, the markets generally exhibited a considerable degree of firmness. But although the weather in June was unsettled and cold, and by no means favourable to the blooming process, yet as the season advanced, and no opinion decidedly adverse to the crops admitted of being formed, while at the same time, as harvest approached, it became manifest that the stock on hand, with the liberated foreign supply, would prove adequate to the consumption, the average price declined; the Gazette average being for the week ending July 5., 67*s.* 10*d.*; a fall of 13*s.* 8*d.* per quarter from the

weekly average in January preceding; and the duty on the six weeks' average was 16s. 8*d*. Immediately previous to this rise of the duty, all the wheat then in bond was entered for consumption. The whole quantity entered, from September, 1838, to July 5., 1839, was about 3,300,000 quarters.

Reports then became prevalent that as the wheats were ripening they exhibited appearances of injury from previous weather; therefore, although the first fortnight of July was not unfavourable to the progress of the crops, the markets were slightly advancing. But the latter part of July and the whole of August were attended with very unsettled, and upon the whole, unpropitious weather. Frequent rains occurred, sometimes heavy, and accompanied mostly by a low temperature, which, although it counteracted in a considerable degree the tendency to sprouting, yet retarded the ripening and otherwise injured the condition and the yield. Under these circumstances, the markets advanced: the weekly average ending August 16. reached 72*s*. 3*d*., and the aggregate average of the six weeks ending September 6. was 71*s*. 8*d*.; making the duty 6*s*. 8*d*. At this rate the duty continued till October 4., when it rose to 10*s*. 8*d*. Immediately previous to this rise of the duty, the whole of the wheat and flour then in bond, about 800,000 quarters, was entered for home consumption.

The average prices fell after this time; but only to 67*s*. and 66*s*., so as to make the duty vibrating from 18*s*. 8*d*. to 20*s*. 8*d*. during the remainder of 1839. This recession, however, of the averages, and the consequently high and prohibitory duty, has not been the effect of a more favourable estimate of the crop than had, at the time of harvest, prevailed, when the average price rallied to 71*s*. 8*d*. The fall of the average has been principally in consequence of the extreme inferiority of the condition of the wheats of the last crop; so that, while in

fact there is an increased want of good dry foreign wheat to make that of our own growth fit for being made into wholesome and palatable bread, it is excluded by the operation of our most impolitic and absurd law.

Of the general produce of the wheat crop of 1839, the estimate of the best informed persons with whom I have communicated on the subject is, that in the southern district it is, although somewhat heavier in straw, inferior in number of grains and in weight to last year, while in the midland it is heavier in straw and with more ears, but lighter than last year, making the aggregate of the two districts as nearly as may be equal; but its general condition this year is inferior. In the northern division of this island, and more especially in Scotland, the crop is better, both in bulk and in yield, than last year; but, on the other hand, in Ireland it is worse; and apprehensions have been expressed by persons well informed as to the corn trade of that part of the kingdom, that instead of a clear import, as of late years, *from thence*, we may receive about 200,000 to 300,000 quarters of their very inferior produce, while an *import into Ireland* of 300,000 to 500,000 quarters of foreign may be required.

In the estimate of the produce of the wheat crop of 1839 is to be included whatever may be considered as an adequate allowance for an increased breadth sown in the autumn of 1838 — restoring probably the proportions between wheat and barley and oats, as they existed previous to the autumn of 1835. What this increased breadth for the crop of 1839 has been is matter of considerable uncertainty; but on the same grounds as applied to the converse in 1835, I have reason to believe that the difference would be from one twentieth to one tenth; and an allowance of about one million of quarters would probably not be wide of the mark.

Estimating, as it appears to me there are fair grounds for doing, the crop of 1839 at about the same acreable produce as that of 1838, (on the supposition that the better crops in the north of Britain may be set against the much worse crops in Ireland,) with an addition of about one million of quarters for increased number of acres, there would, according to the computation which I have made in the case of 1838, be a deficiency, as regards the mere crop of 1839, of about 2 millions of quarters from the quantity necessary for consumption till the harvest of 1840. But it should seem, according to the general impression, that there was rather more wheat in the farmers' hands at the harvest of 1839 than there had been in 1838; and there has also been a portion, not less, probably, than 1,500,000 quarters, of the foreign supply admitted to entry, applicable in aid of our own growth, between the last and the ensuing harvest.*

These computations of quantity are only conjectural; and I offer them not as possessing the slightest authority, but merely as giving a more definite and tangible form to the impression which I would convey of my own conclusions, from a comparison of the different accounts I have met with, than could be derived from mere general expressions regarding comparative produce.

According to this view, if there were nothing in the character of the seedtime, and of the further progress of the season to give ground for apprehensions as regards the next harvest, and more especially, if that should prove to be an early one, it would be perfectly within fair calculation, that the existing stock might be eked out without the addition of any further foreign supply than such as might, from the apprehension of the holders

* For the total quantity of wheat and wheat flour entered for home consumption, from July 5. 1838, to January 5. 1840, see Appendix.

of a still higher duty, be entered at about the present rate, which would be otherwise prohibitory. But the extraordinary wetness of the last autumn and of part of the winter, which has occasioned a vast breadth of the wheat lands to remain unsown till an unusually late period ; the greater precariousness, therefore, of the crop, and the more importance, consequently, attaching to any appearances of backwardness or inclemency of the spring, may be expected to operate powerfully on opinion ; thus causing what would be called speculation, (which, if there should happen to be any enlargement of the circulation or reduction of the rate of interest, would be said to be caused by the Bank or the Currency,) and such a consequent fall of the duty as might admit a considerable further foreign supply. This, however, is all in the regions of conjectural anticipation ; my present purpose being to give the best record and explanation in my power of prices and the causes of them in these two years. which will be memorable in the corn trade.

Section 4. — *Relative Prices of Wheat and Barley.*

In the account which, in treating of the prices of agricultural produce, I had occasion to give of the state of the corn markets during the fall in the value of wheat after the abundant crops of that grain in the four successively favourable seasons ending in 1835, it was observed that the *relatively* high prices of barley and oats, and of other descriptions of grain and of pulse, had operated in causing a greatly increased consumption of wheat, as a substitute for these on the one hand, and on the other hand a considerable diminution of the breadth

of land sown with wheat in the autumn and winter of 1835–36. The land so withdrawn from the cultivation of wheat was appropriated to the growth of barley and other corn and grain, which were comparatively high. It was in consequence partly of the notoriety of the extra consumption of wheat while there was a diminished cultivation of it, as was stated by several of the witnesses before the agricultural committees of the Lords and Commons in the spring of 1836, that the price of wheat advanced: and the combined effect of the seasons and of the varying extent of consumption and cultivation, as between wheat and barley, was naturally to alter their relative prices. The average prices were for the year

		s.	d.
1835 -	Wheat - -	39	4
	Barley - -	29	11
	Oats - -	22	0
1838 -	Wheat - -	64	7
	Barley - -	31	5
	Oats - -	22	5

In consequence of this great alteration of the relative prices, the case, as regards consumption and cultivation, has been reversed. There is no doubt that in the course of last year a great deal of barley, which would otherwise have been used for malting and distilling, was manufactured into flour, entering largely into consumption as bread, at the same time that in the autumn and winter of 1838–39 there was, if not earlier, a restoration of the full proportion of wheat under cultivation, that had formerly been withdrawn, and possibly a further quantity of land appropriated to wheat, at the expense of other grain or pulse.

Having passed in review the chief variations in the prices of corn, principally those of wheat, with a description of the seasons as affecting the home growth, and with an account of the

quantities of foreign wheat entered for home consumption during the same interval, I shall proceed to examine the degree of influence to be ascribed to the corn laws. How far variations in the value of the currency have been connected with the prices of corn in that interval, in the relation of cause and effect, has been incidentally noticed in the preceding chapter, and will be further considered when the state of the circulation comes to be examined in the concluding part of this Work.

SECTION 5.—*Influence of the Corn Laws on Prices.*

It would be foreign to the immediate purpose of this work to enter into an examination of the general question of the policy of the corn laws; and even if it were necessary to form a part of the present inquiry, I should despair of being able to add arguments that could be deemed to be new, or to add any force to those which have been in the recent discussions, both in and out of parliament, urged so incontrovertibly, in my opinion, against those laws, on grounds of justice and of an enlightened and enlarged view of the public interests. But inasmuch as the corn laws have, during the last two years, formed a very striking feature in the corn trade, it cannot be considered as irrelevant to an inquiry into the circumstances affecting the markets for agricultural produce, to enter into the question how far the operation of the present scale of duty on the importation of foreign corn has exercised, and is calculated to exercise, an important influence on prices?

After the disastrous experience of the signal

failure of the corn law of 1815 in securing any one of the objects proposed by the promoters and supporters of it, and after the necessity had arisen for several relaxations of it by partial admissions under orders in councils in 1825 and 1826, and under a special act in 1827, the law of 1828, which has ever since continued in force, was passed. Among other of the professed objects of this, as of the former law, were, —

First—The securing to the farmer a constantly remunerating price (the estimate of which was now reduced to 8*s.* instead of 10*s.* the bushel); and more especially, —

Secondly—To prevent, by the ingenious device of what is called the sliding scale, any considerable degree of fluctuation in the price of corn.

How far the first of these purposes was attained may be judged of from the circumstance that, in 1830, 1833, and 1836, there were complaints and lamentations of agricultural distress, loud enough to call forth special notice in the speeches from the throne on the meeting of parliament in each of those years. And that there was good cause for complaints and lamentations on the part of the farmers may readily be admitted, when it is seen that, instead of 64*s.* or even 60*s.*, which they were taught to expect by their landlords, who had been instrumental in obtaining the law, (and who had regulated their rents accordingly, as a great concession from 80*s.*, which had before been their standard,) they found that they were obliged, after a feverish state of high but rapidly fluctuating prices between 1828 and 1831, to submit to a nearly progressive decline, protracted through five successive seasons, of no less than 50 per cent. in the price of wheat; viz., from 75*s.* in February, 1831, to 36*s.* in January, 1836.

Of the precise nature of the distress complained of by the agriculturists in the session

of parliament following the harvest of 1829, I have elsewhere* given an account. Of the complaints in 1833, the grounds are stated at great length in the Report of a Committee of the House of Commons, appointed in the spring of 1838, with the evidence on which it professed to be founded; while, of the still louder complaints in 1836, the evidence taken by the committees of both Lords and Commons, although unaccompanied by reports from those committees, furnish still more ample details. The witnesses having been such as were brought forward almost exclusively by the landed interest to prove their case, must be considered as constituting a body of evidence which furnishes irrefragable proof of a degree of losses and suffering among the farmers which could hardly be exceeded if all the forebodings of the friends of the corn laws, on the supposition of a free trade, were to be realised to their fullest extent.

The description thus given, on the authority of committees of the Lords and Commons, of the total failure of the first of these objects, namely, that of securing to the grower a steady remunerating price, involves the supposition of what was the fact, — a very great decline of price compared with that rate during a considerable interval of the period under consideration. But it affords no adequate idea of the degree in which another and, in the declared opinion of some of the promoters of the bill of 1828, the more important object of the measure, has signally failed of its purpose.

Of the great evils attending fluctuations in price, and of the importance, consequently, of securing as much steadiness as possible, the committee of the House of Commons on agriculture,

* Vol. II. p. 198.

in 1833, have expressed themselves in the following terms:—

"Fluctuations of price, whether they arise from "alteration in the value of money or from changes "of the corn laws, cannot fail to produce evils in "every branch of rural economy, which, inde-"pendently of these disturbing causes, must ever "remain exposed to grievous vicissitudes from the "uncertainty of seasons. These artificial fluctua-"tions, however, only aggravate the natural evil: "they render the income of the landlord preca-"rious, the fixed rent of the farmer a hazardous "speculation, and the wages of the labourer an "uncertain remuneration.

"Steadiness of price, which is conducive to "settled habits, and forms the basis of all fixed "engagements, is the primary object never again "to be overlooked."

The Report then proceeds to add,—"And your "committee cannot fail to remark, that there has "been, coincident with the present system of corn "laws, a steadiness in the price of corn of which "there has been rarely, if ever, an experience in "any former period of equal duration; and as, "during the same period, there has been a very con-"siderable difference in seasons, and in the actual "amount of corn produced, it is but just to ascribe "to the present system a great degree of that steadi-"ness of price which has unquestionably prevailed."

It is not easy to conceive reasoning more illogical, and proceeding on a more imperfect analogy, and drawing a general conclusion from a narrower induction and more incorrect assumption of facts, than is contained in the above passage.

The committee, in corroboration of their position as to the steadiness of the prices of wheat in the five years immediately following the enactment of the present law, refer to a table which they insert, dividing the whole time between 1797 and 1833

into terms of five years each.—"Figures," they then add, "establish the assertion, resting on the "concurrent testimony of the most experienced wit-"nesses, that the price of wheat for the last five "years, under the present corn law, has been more "steady than for any other period of five years since "1797, beyond which time no official returns of "accuracy can be produced."

The reason stated in the concluding part of this passage, for confining the comparative table to a period not antecedent to 1797, namely, that no official returns of accuracy can be produced beyond that time, is insufficient.

The returns of the Windsor market, upon which the Eton tables are constructed, supply quotations sufficiently accurate for the purpose. I have noticed in the foregoing part of this work *, the striking proofs adduced by C. Smith, the author of the well-known Corn tracts published in the middle of the last century, of the degree in which those Windsor prices are to be relied upon. And from these it would appear that there are several instances of a steadiness of price much beyond that of the period here in question. But if it were otherwise, the fact would not be of great value, since, during the whole period, we have been under an artificial system, the machinery of which, objectionable, as it doubtless may be considered, was less so as regarded liability to causing fluctuation of prices than that of the existing system; and might, in some points of view, be looked upon as mitigating, instead of aggravating, the tendency to such fluctuation.

Allowing, then, (for the point is not worth disputing for the present purpose, although much stress is laid upon it by the committee,) that there exist no returns of accuracy anterior to 1797; the committee had still to make out reasonable grounds

* Vol. I. p. 39.

of analogy, not only as to vicissitudes of the seasons, but as to the state of external politics, and of internal restriction, not to mention what the committee, with most exemplary inconsistency, notice as a great cause of variation in prices; namely, alterations in the state of the currency, which could bring any one of the periods of five years from 1797 to 1828 within the same category as that of 1828 to 1832. In these last five years was there any thing like the scarcity from the seasons of 1799–1800, when foreign supplies were subject to war freights; but which was succeeded immediately by the abundant crops and peace charges of importation of 1802? Or, again, the deficient crops from 1808 to 1812, during one part of which period a foreign supply was obtained, but subject to freights and insurances, amounting to between 40*s.* and 50*s.* per quarter, and during the two latter years of which, we could obtain no foreign supply whatever, succeeded by greatly increased home growth, and large importations at reduced charges from 1813 to 1815? With regard again to the period following 1815, were the committee not aware of the existence of a corn law which prohibited importation up to 80*s.*, and which *insured* a great range of fluctuation? — not to mention the effects of the desolating character of the season of 1816 throughout Europe, which has since had no parallel. How then was it possible that a majority of the committee should have concurred in a report which set up such a monstrous attempt at analogy as a ground for acquiescing in the conclusion which it was proposed to establish?*

It is stated in the Report, that the assertion of steadiness rested on the concurrent testimony of

* If the committee had simply stated that the corn law of 1828 had produced less fluctuation, and was less likely to produce it than the law of 1815, there would have been no ground for denying the assertion.

the most experienced witnesses. The first of the witnesses, and certainly one of the most experienced that were examined on this point, was Mr. Jacob, who delivered into the committee "an account "showing the highest and lowest prices of wheat in "each of the last 20 years (1813 to 1832), and the "rate of fluctuation taken in periods of three years." And his examination, with reference to this account, was as follows: —

"Admitting that the fluctuation has not been "so great in the latter as in the former periods, "do you conceive that is solely attributable to the "state of the law?—I am not sure, two things "happening together are not necessarily cause and "effect.

"Is it not the case that the seasons since 1828 "have been all deficient, and pretty nearly equally "so?—No; the year 1828 was certainly defi-"cient; the year 1829 was deficient about its "average; the year 1830 about the same; the "year 1831 the same; 1832 would have been "deficient, but that the harvest happened one "month earlier than usual.

"You are aware that just previous to the har-"vest of 1831, there was a very large admission "of foreign corn into the market?—Yes.

"Supposing the harvest of 1830, instead of "being deficient, had been an abundant harvest, "would not a large admission of foreign corn into "the market just before have interfered with the "character of steadiness you have given to the "latter period, in a degree which would have "been important?—Yes, I think it would to a "great degree."

I have introduced this extract from the evidence for the purpose of showing from the questions that there were members of the committee who were aware of the real explanation of the comparative steadiness of the prices in the period in ques-

tion. The steadiness may be distinctly accounted for by a very great and, as far as my means of observation and research have extended, a very unusual similarity in the seasons (which is admitted by Mr. Jacob, in his answer to the question on that point, although he begins with a negative), and in the actual amount of corn produced in 1828, 1829, 1830, and 1831.

If, therefore, the committee had, with reference to the tendency of the law of 1828 to cause fluctuations, stated the facts, and drawn the conclusion correctly, they might simply have given the converse of their propositions thus: —

"There have been several equal periods anterior "to 1797 exhibiting a greater degree of steadiness "than that which occurred in the five years 1828 to "1832. And as the circumstances from 1797 to "1828 bear no analogy to those of the five years "alluded to; as moreover, during these five years, "there has been a much less difference in seasons "and in the actual amount of corn produced than in "any equal term of five years since 1797, there is "*no ground whatever for ascribing to the present sys*"*tem any part of that steadiness which apparently* "*prevailed in the five years* 1828 to 1832."

But nowithstanding the comparative steadiness of the annual averages, there was a very great degree of unsteadiness in the variations *within* the several years, from 1828 to 1832, and of inconvenience to farmers, dealers, and merchants, from the time and manner in which the foreign supplies were admitted. They came in by jerks in large quantities at once, not according to the immediate wants for consumption, but according to the perpetually varying duty, and according to the opinion among the importers of the probability of a rise or a fall of the averages. I could state, in detail and upon the unquestionable authority of intelligent farmers and dealers, how sudden and unexpected was occasionally the change,

and how much they were perplexed, by the disturbing causes hence arising, how to act, those of them at least who were not under the influence of undeviating routine,—in sending their supplies to market. But such details would be tedious, and so far superfluous, inasmuch as to most readers it must be obvious that supplies of such magnitude coming into the market in so irregular a manner could not fail of being most perplexing to the farmers who depended upon those same markets; and that, in point of fact, the fluctuations, although not very marked in actual quotation, were much more perplexing and distressing than they could have been in an unrestrained state of the corn trade.

It might seem that too large a portion of this inquiry has been allotted to the discussion of the point which has thus been dismissed; but the fact of that apparent equableness or absence of fluctuation in the period alluded to, is a most important feature in the table of prices, especially if the yearly averages only are taken; and although I noticed and explained it in the former part of this work *, I did so in a more brief and cursory manner than I should have done if the corn laws had then been a subject of any public interest; and I have been induced thus again to enter upon the explanation more at large, because that particular instance of steadiness of price has been chosen as one of the strong places, if not the strongest, which has been taken up in defence of the corn laws.

The state of prices, from the harvest of 1832 to the present time, has been a sad stumbling block in the way of the advocates of the corn laws, who contend for the beneficial operation of the present system. The experience of this interval, instead of furnishing them, as in the case of 1828 to 1832, with a primâ facie case for praise of the law as in-

* Vol. II. pp. 193—202.

suring steadiness of price, has reduced them to more humble but still untenable grounds of defence. These are, —

1. That the fluctuations, although undeniably great and very distressing, are not more so than some that have occurred in the experience of former times.

2. That the corn law has worked well, inasmuch as when the market was exceedingly depressed the home grower was secured against a foreign supply, and when prices rose to the rate which indicated deficiency of our home growth, a foreign supply of unprecedented extent has been admitted at a very low duty.

3. That all agricultural produce is necessarily liable to fluctuations of price, from vicissitudes of the seasons, and other causes, independently of the corn laws, and that several other articles of raw produce, although not under restriction, have fluctuated more than corn.

These pleas in favour of the corn laws, although, perhaps, more properly in mitigation of the obvious objections to their operation, than in support of an opinion of their beneficial effects, admit of the fol lowing answers : —

1. There is no experience of an unrestricted trade in corn in the last two centuries, so as to admit of comparison between the recent fluctuations and those in any former equal period, and thus to form grounds of inference as to what would, under circumstances in other respects similar, have been the fluctuations in a perfectly unrestricted state of the trade. But both from analogy and from a reference to the working of the law, it is perfectly clear that the fluctuations could not have been greater, would most probably have been on a smaller scale, and would most certainly not have been attended with such disturbance in the direction of commercial capital and credit.

2. With regard to the assertion of the corn law having worked well, it remains for the advocates of the measure to reconcile this assertion with the facts; viz., that under its operation the farmer had to sustain a progressive fall in the price, through no less than five successive years, from 75*s.* till it got down to 36*s.* for the imperial, or 34*s.* 11*d.* for the Winchester quarter; a continuance and degree of declining markets, accompanied by great distress and loud complaints on the part of the farmer, being a state of things which it is not easy to conceive admitted of aggravation by a perfectly free trade in corn; while, on the other hand, upon the occurrence of the first season following, of marked deficiency, the public was prevented from obtaining relief by the admission, for consumption, of any foreign wheat to make up for the deficiency, until (the weekly average having reached 77*s.* in August) the aggregate averages of the six weeks had attained in September 73*s.* 2*d.*, when, suddenly, in the single week 1,513,113 quarters of wheat and wheat-meal were liberated at the low duty of one shilling the quarter.

This sudden admission of so enormous a quantity of foreign corn had the effect, notwithstanding the ascertained deficiency of our own growth, of depressing the markets, insomuch that the average price, which, on the 24th of August had been 77*s.*, declined within the following four weeks to 61*s.* 10*d.*; so that, whereas the previous rise to 77*s.*, which had been grievously felt in the price of bread by the working classes, and was for the benefit only of the wealthier farmers who had been enabled to hold their stocks of the crop of 1837 to the last; the subsequent fall was to the detriment of the numerous class of small farmers, who having, by that time, got in their crops in all the division of the island south of the Humber, were threshing out and, as usual, bringing the earliest supplies to market.

At the same time a great deal of the commercial capital was diverted from its usual channels, for the purpose of supplying funds, immediately available, for transmission to every corner of the globe from whence corn, however unsuitable it might be in point of quality, could be obtained. And independently of the inconvenience inevitably attendant upon the diversion of so large an amount of capital from its ordinary direction, is the evil of disturbance of the circulation by the great drain of bullion entailed by so sudden and extensive a transmission of funds abroad.

On the occasion, too, of a prospect of the opening of our ports at the low duty, such is the suddenness and extent of demand for shipping, that not only are vessels very unsuitable for corn cargoes engaged, but a deficiency of tonnage is experienced, to the inconvenience of other branches of trade. The shipowners, indeed, are gainers by the great rise of freights, and of the value of shipping on such occasions; and the shipping interest is, at such periods, necessarily in a flourishing condition, as at present. But the mischievous working of the system is again felt in this very interest; for no sooner are the ports again shut, than there is a sudden cessation of all such extra demand for shipping; vessels are built under the influence of the casual demand and high freights: hence, by the subsequent competition, the rate of freights is reduced temporarily below even its ordinary level; and the shipowners, who, like the landed interests, consider themselves entitled to apply to the legislature on occasions of any considerable decline from a previous adventitious rise in the value of their property, become loud in their complaints of a decay of British shipping, and pray for additional protection, as was the case between 1819 and 1822, and again in 1832 and 1833.

It is perfectly true that the prices of corn are liable to great fluctuations from the vicissitudes of the seasons, and from other causes independent of the restrictions on importation; it is likewise true, that several other articles of raw produce, on the importation of which there are no restrictions, have experienced fluctuations as great as those which have occurred in the prices of corn; but it is difficult to understand how these undeniable propositions bear upon the question of the influence of the corn laws.

They convey no answer to the charge against those laws, as operating in aggravation of the tendency from other causes to fluctuation of the prices of corn; and, if in some few instances, other articles of raw produce have varied more than corn, there would be very little hesitation on the part of persons possessed of competent mercantile experience to give it as their opinion, in every individual instance, that restrictions on importation, analogous to those which apply to corn, would add to whatever might be the causes of variation inherent in and peculiar to such article.

I am glad to be enabled to refer, in support of my view of the mischievous working of the machinery of the corn laws, and of the inevitably great fluctuation which they entail, to a very clear and able exposition of the mode of their operation by a writer who, while from mercantile knowledge he is practically acquainted with the subject, is at the same time largely interested, as a landed proprietor, in the prosperity of agriculture, and evinces by the tone and temper with which his argument is conducted, a strong bias in favour of protection for the landed interest.

"If the present shifting scale of duty was in-
"tended to protect the farmer, keep the prices of
"corn steady, insure a supply to the consumer at
"a moderate price, and benefit the revenue when-

"ever an imposition was required, it has signally "failed. During the continuance of the corn "laws the farmers have suffered the severest pri-"vations. The variations in price have been ex-"treme, and when a supply of foreign corn has "been required for the consumption of the country, "it has not reached the consumer except at a very "high price, whilst but little advantage has ac-"crued to the revenue. Instead of the descending "scale of duty promoting a supply in proportion "to the rise in the price, experience has demon-"strated the contrary. The risks which persons "must incur by bringing corn from abroad are "inevitably great; for should it afterwards appear "that the home supply was sufficient for the wants "of the country, and no advance of price conse-"quently took place sufficient to compensate the "importer, his loss would be considerable. When-"ever, therefore, a demand for foreign corn takes "place, his gain must bear some proportion to the "risk he has incurred. It is evident that the fall "in the duty operates as a *bounty* in favour of the "speculator, tempting him to keep his corn out of "the market as long as possible. For this object, "whenever circumstances indicate that a foreign "supply will be required, and an advance in the "market takes place, the speculators, without any "other combination than that arising from self-"interest, withhold making sales, notwithstanding "the rise of price may afford them a fair profit on "their corn. Their gain is calculated not only "on the *advance in the price of the corn*, but also "on the *fall in the scale of the duty*, and as the "duty *falls* in a greater ratio than the price of the "corn *rises*, the duty operates as a *bounty* to with-"hold sales until it reaches its *highest protecting* "*point*, when the *duty is also at the lowest*. It is by "this means that the revenue received from grain "admitted for home consumption is inconsiderable,

" for corn is seldom taken out of bond until the " lowest rate of duty is attained. Then, again, " should there be a large supply of corn taken out " of bond and entered for home consumption, the " average *price is sure to fall*, and *the duty to rise*, " for the speculator, having made his profit by the " reduction of the duty, is less concerned about " selling a few shillings per quarter higher or lower. " His profit is secured by the operation of the " duty, as may be seen by the following descrip- " tion. Let it be supposed an opinion prevailed " that a supply of foreign corn would be required " for the consumption of the country, and that " with this impression a purchase of corn had been " made on the Continent deliverable in London " at 40*s.* per quarter, and that it arrives here when " the average price is at 66*s.* per quarter. The " duty on wheat at 66*s.* being 20*s.* 8*d.*, a moderate " profit might be made by selling the corn, duty " paid at that price. But the impression that the " supply will be required induces the speculator " to hold back in the confidence, that, should the " averages reach 70*s.*, he not only would gain 4*s.* " *by the rise in the market, but* 10*s. more by the* " *diminution in the duty*, making an *increase* of " profit of 14*s.* Should the averages reach 71*s.*, " *he gains another profit of* 4*s. in the duty* with " only an increase of 1*s.* in the price, making an " addition of 5*s.*, or an increase of profit of 19*s.* " Should the averages advance to 72*s.*, *another* " *gain of 5s. is secured*, being a rise of 1*s.* in " price, and a diminution of 4*s.* in duty, making " his profits 24*s.* When the averages are at 73*s.*, " the extreme limit is attained, the duty being " only 1*s.* per quarter; so that if an importation " were made that might be sold at or about 66*s.*, " paying a duty of 20*s.* 8*d.*, by withholding the " supply until the extreme limit of 73*s.* be reached, " a *gain* of 7*s.* not only would be made by the *rise*

" in the averages, but also a *profit* of 19*s*. 8*d*. by
" the *reduction* of the duty, making a *total in-*
" *creased profit of* 26*s*. 8*d*. Can we wonder that
" in seasons of apprehended dearth the price of
" corn reaches the utmost limit provided by the
" Act, when the tendency of the fluctuating scale
" is, not to promote, but to withhold the supply,
" not to keep corn from fluctuation, but to offer a
" *bounty* for raising it to that extreme point when
" the merely nominal duty is imposed? And,
" again, can the depression in the market occasion
" surprise? The corn importer, having succeeded
" in getting his corn admitted at a low duty, has
" no longer any object in keeping back the supply,
" and presses it forward for sale, which, *reducing*
" the price, *raises* the duty. Thus, by the ope-
" ration of the double action of a rise in price and
" diminution in the duty, he protects himself from
" the admission of any corn on the same advan-
" tageous terms that he has secured for himself.
" If a state of things such as above described be
" conceived occurring just before harvest-time, an
" accumulated quantity of foreign corn being ad-
" mitted for home consumption, you may easily
" suppose that the price will be affected by the
" supply thrown into the market, to the great
" injury of the British grower, who, in fact, would
" have to contend with a mass of foreign corn
" *duty free*, instead of having that fair protection
" which a better system would undoubtedly af-
" ford." — *Reflections on the Operation of the present Scale of Duty on Foreign Corn.* By David Salomons, Esq.

But the charge against the corn law, under the head of causing fluctuations, is not only that it has aggravated, and is calculated to aggravate, whatever might otherwise be the tendency to variations of price, but that, circumstanced as this country has been and is, with an increasing popu-

lation, and with an extent and degree of cultivation barely keeping pace with the rate of consumption, such a range of fluctuation as we have witnessed within these few years, namely, a fall to less than half, and again, a rise to more than double, that is, a fall of upwards of 50 per cent., and a rise of upwards of 100 per cent., is *necessarily incident* to the existing system of restriction on importation. This view of the extent of the fluctuation, inevitable under the present system, is founded on experience of the past, corroborated as the inference from that experience is by reasoning, *à priori*, upon the probable consequences to be deduced from the operation of a scale of duties so constructed. In three memorable instances since 1812, when prices had been raised by deficiency from the seasons combined with restrictions on importation, the recoil upon the restoration of abundance from the combined effect of favourable seasons, extended and improved cultivation, and an excess of importation after the cessation of the scarcity, has been attended with a fall of prices to less than one half.

The high prices in 1812 were not, indeed, the effect of *legislative* restriction on importation, but the obstruction to foreign supplies from political causes, operated exactly in the same way. In less than four years from that time, the price of wheat fell to one third of what it had been; namely, from 156*s.* to 52*s.* 6*d.* And so large was the surplus, according to all computation, at the harvest of 1816, that if the season had turned out propitious (instead of being, as it was, signally adverse in this country, and still more so on the continent of Europe), there can be little doubt but that the fall would not have stopped short of 36*s.*

The subsequent rise was unquestionably aggravated by the circumstance that, as it was very

doubtful, till late in the autumn of 1816, whether the ports would open by a rise of the average of six weeks to 80*s*., there was hardly any importation in that year; whereas, in the two following years, 1817 and 1818, when the urgency of the want was over, there were imported upwards of three millions of quarters of wheat and wheat-flour. Of this large supply, a good deal arrived late in 1818 and remained as a surplus, which, with extended cultivation and abundant crops to the close of 1822, reduced the price to less than one third of what it had been in the spring of 1817, namely, from 117*s*. to 38*s*. The large stock which existed from the surplus of the three preceding years prevented such a rise as the indifferent crops of 1823 and 1824 must otherwise have caused; and if it had not been for the partial admissions of foreign corn by special acts in 1825–6–7, and the alteration of the law in 1828, it is beyond question, that upon the occurrence of so decidedly deficient a crop as that of 1828, the price must have risen above 80*s*., and the fluctuations through the three following years of deficiency would have been more abrupt than those which occurred under the altered law.

The alteration of the law was an improvement, and 73*s*. being then the rate at which the low duty attached, the averages at three several times reached that rate, in 1828, 1830, and 1831; such rise, although beyond the immediate occasion, being the necessary condition of an adequate foreign supply. As usual, however, and as it almost inevitably happens on such occasions, the impulse to importation being given, the foreign supplies continued to come in after the deficiency had ceased to be felt, and a great part of those supplies was entered for consumption at a gradually increasing duty, till the rate of it became prohibitory. And, as we have seen, this surplus of foreign

corn, combined with our own extended cultivation and abundant harvests, brought prices, at the close of 1835, down to less than one half of what they had been in the spring of 1831. When again, more recently, in the early part of 1838, it became manifest that the deficiency of our own growth, combined with the exhaustion of the surplus of former harvests, would require a large foreign supply, no entry for home consumption was made, or was, indeed, likely to be made till the six weeks average reached 73*s*., being a doubling of the price since the close of 1835.

How soon there may be a return of more favourable seasons, it is impossible to say; but it requires no peculiar gift of prophecy to venture to predict that, upon a recurrence, if such there should be, of seasons of *acreable* produce equal to those between 1831 and 1836, we shall again see the price of wheat, at, or below 36*s*. There will then, with our still growing population, be a repetition of the circumstances analogous to those we have witnessed, of increased consumption, a disturbance of the usual proportions of grain sown, a consequent gradual reduction to exhaustion of surplus, till a season of moderate deficiency should render a foreign supply necessary, when, as a condition of receiving an adequate quantity, the price *must* rise to, at least, 73*s*.

It appears, therefore, inevitable, that on the supposition of seasons of abundance alternating with intervals of only moderate deficiency, the minimum of the range of fluctuation must be between 73*s*. and 36*s*. Should there, however, be a desolating season like that of 1816, inflicting scarcity approaching to famine throughout Europe; and still more if two seasons in succession like 1794 and 1795, and again 1799 and 1800 should occur, there is no saying to what a height the price might not rise;

and in proportion to the excessive elevation under such extraordinary circumstances, would be the chances of eventual extreme depression. Against inconveniences and sufferings resulting from vicissitudes of the season in this extreme degree, there is no foresight of the legislature or the government that can adequately provide: but a system like that of our present corn laws is calculated to aggravate in a peculiar degree the evil of such visitations. It operates to this effect in a two-fold way: the one, by its tendency to cause an exhaustion of our home stock before any resort is made to a foreign supply; the other, by confining the radius, from which our supply is habitually drawn in ordinary seasons, to multiply the chances of occasional deficiency from the prevalence of unseasonable weather.

No one can be more alive than I am to the circumstance, that within certain degrees of longitude and latitude, extending over the central parts of the continent of Europe, there is, in the majority of seasons, a prevalence of weather of the same general character of propitiousness or unpropitiousness to the growth and gathering of the corn crops, as prevails in this country. But this circumstance, instead of being an argument, as by some persons it has been set up to be, against a free trade in corn, is the strongest ground in favour of it. An extension of the radius of our habitual supply to the north and south-east of Europe, to parts of Asia bordering on the Black Sea and the Mediterranean, to Egypt, and above all to the United States of America, would greatly mitigate the effects of visitations of peculiar inclemency of weather prevailing simultaneously in this country, and within a certain range on the continent of Europe.

In ascribing to the present system the necessary effect of a range of fluctuation of the price of wheat

between 73*s.* and 36*s.*, I am assuming that the improvements in agriculture, and the extension of cultivation, which it is said to be a main object of the existing restrictions on importation to promote, continue in the same ratio to the progressive increase of the population as they have done within the last twenty years. If the rate of production should outrun that of the population, there may be periods of depression below the above minimum. If, on the contrary, and according to the more probable supposition, the increased rate of production should not keep pace with that of the population, the low duty price of 73*s.* would be more frequently reached and exceeded, and the subsequent subsidence might not be to so low a rate. The range between the highest and lowest might be diminished, but the variations would be more frequent and more abrupt.

A great deal of superfluous ingenuity was displayed by some of the supporters of the existing restrictions, in showing that in some instances during the last ten years, the variations between two or three consecutive years had been very small, — instancing those from the close of 1832 to the close of 1835. Now it must be quite obvious, that as the decline of prices was progressive, and as at the former date there had already been a great fall, there was so much less room for a further fall. Therefore, how the fact proved any thing for the argument which went to the whole range of variation between 1831 and 1339, it is not easy to conceive.

There is this further consideration when viewing the enormous fluctuation from 73*s.* of progressive fall during four years and a half to 36*s.*, and of the oscillating rise in the four years and a half following to 81*s.*, that, instead of about 56*s.*, which would be the average result of these figures, the home grower can hardly have averaged a price of

50*s*. for the whole of their crops of wheat during that interval. The reasons for this opinion are these.

As one of the effects of miscalculation, the liability to which is greatly increased by the addition to all the other elements of uncertainty of speculation upon the rapidly shifting duty, the quantity of corn which was admitted in March, 1831, at the low duty, and in the following months during the remainder of the year at progressively increasing rates of duty, amounted to no less a quantity than 1,661,673 quarters, — a quantity which, by the event, proved to be beyond the occasion, inasmuch as it appeared that a larger surplus existed at the harvest of 1831 than had been expected. And if it had not been that the harvest of 1831 was, in the south-eastern districts, deficient in acreable produce, the fall of prices would have been much more rapid; but, as it was, the price fell to 60*s*. by October of that year. And it must be evident that the bulk of the foreign wheat, upwards of 1,600,000 quarters, must have shared, with the home growers, the benefit of the sales at the comparatively high prices, 73*s*. to 60*s*. Now the averages of the six years following, when there was no foreign wheat, or no proportion worth mentioning in the market, were, —

		s.	*d.*
1832	-	58	8
1833	-	52	11
1834	-	46	2
1835	-	39	4
1836	-	48	6
1837	-	55	10
	(6)	301	5
		50	3

But if it be considered that by far the largest quantities sold were in the three years of the lowest prices, viz.—

		s.	d.
1834	-	46	2
1835	-	39	4
1836	-	48	6
		3)134	0
		44	8

the average of which was 44*s.* 8*d.*; and that during that period, although, as usual, upon the occurrence of low prices, there were loud complaints of agricultural distress, the country never exhibited a greater extent nor higher degree of cultivation; it is perfectly fair to presume that at a price of about 45*s.* there would be no reason to apprehend that much, if any, land would be thrown out of cultivation; and by land being thrown out of cultivation must be understood, as it is held out *in terrorem*, that the land would be suffered to run waste. If, indeed, while wheat was on an average of three years under 45*s.*, barley and other grain were higher in proportion, there would be a tendency, when leases, and the land, and the habits of the farmers were not opposed, to sow more largely of barley, or other grain which paid better, in lieu of wheat. Such was the case at the close of 1835; and this, with less droughty seasons, accounts for the larger crops and the lower relative prices of barley in 1836–7.

In the evidence taken by the agricultural committees in 1836, the leading questions were clearly intended to elicit answers which should go to prove that cultivation was undergoing diminution or deterioration; but it was only in isolated cases and under peculiar circumstances, that cultivation

could be shown to have either been deteriorated or diminished. Those peculiar circumstances seem to have applied chiefly to some parts of Buckinghamshire and Yorkshire. With reference to the latter, one of the witnesses, Mr. C. Howard, stated that some of the poor strong soils of Howdenshire had gone out of cultivation; not, however, in consequence of the low prices of 1832 to 1836, but in consequence of the wet seasons (notwithstanding the high prices) of 1829–30–31.* It would appear, indeed, generally, that the greatest sufferers among the farmers were those who occupied the poor heavy soils, to which those wet seasons were peculiarly destructive; and it was to this circumstance that was mainly owing the reference in the King's speech of 1830 to the distressed state of agriculture. The Duke of Wellington, indeed, expressly explained the nature of the distress, which was attributable to the wet seasons and to the extra expenses attendant thereon. But the general fact is, in proof, by results beyond controversy, that the agricultural productions of the kingdom were never, as far as the seasons permitted, on a larger scale than in 1836 and 1837, notwithstanding the alleged discouragement of the low prices of 1834–5.

Although, however, there is every reason, founded on the experience of that period, and on other grounds which it is not here the place to enter upon, that at a range of prices of about 45*s.* for wheat there would be no just cause for apprehending any diminution of the breadth of arable land, unless the land were to become, as I believe it will with the growth of population become, applicable to more valuable productions than corn; it would form no valid reason for perpetuating on

* Agricultural Report of the Committee of the House of Commons, 1836. Questions 5346 to 5348.

the country the infliction of the corn laws. At the same time, if it could be fairly shown, that the growing lands of this country, constituting any considerable proportion of those destined for the supply of food for the community, could not be continued under cultivation, except at prices much higher than those of the foreign grower, such difference might be a ground for rendering the transition more gradual; and the degree or extent of difference should serve as a guide for determining the gradations by which that difference should be reduced. But from all the information which I have been able to collect, not omitting that which the agricultural reports of 1833 and 1836 by the committees on agricultural distress of the House of Commons, and of 1836 by the committee of the House of Lords, are calculated to afford, I am firmly persuaded that the difference is very inconsiderable, so inconsiderable as not to form a valid objection to a very early resort to the only system which can hold out the prospect of security, to farmers in their leases, to landlords in their incomes, and to the public in having their supply of food divested of an impost which is felt grievously by the consumer (not to mention the other grievances attending it), while it adds little, if at all, to the permanent income of the producer.

SECTION 6.—*Effects which a Bounty would have had.*

If then the system of corn laws from 1815 to the present time has so signally failed to control, as on each occasion it was the professed object to do, the range of fluctuation, or to secure what was considered to be a remunerating price, it may be asked whether, admitting the justice and expe-

diency of the principle of monopoly in behalf of the landed interest, the objects proposed were or are attainable by legislative regulation. The answer must be in the affirmative, on the supposition, however, that the principle is acquiesced in, and the regulation submitted to by the public.

The failure of the present, and the still more signal failure of the former corn laws, has arisen from the circumstance, that while possessing the power under certain conditions of artificially *raising* the price to a given height, there has been no provision in them for the application of a *sustaining* power. In order to be effectual in maintaining, as well as in merely occasionally raising the price, it is absolutely essential that there should be a bounty on exportation. In the case of a total prohibition of importation up to so high a rate as 80*s*., the quantum of bounty on exportation that should have been effectual in keeping the price up to that level, would have been something so extravagant as not to be thought of; and the bounty which was provided by the law which previously existed, viz. 5*s*. per quarter on wheat when the price was at or under 48*s*., appeared so insignificant in amount, and dependent upon a contingency so improbable, that it was not thought worth retaining. The promoters, therefore, of the law of 1815 abandoned that part of the provision of former laws. At the same time, if the promoters of that measure had been at all aware of all its consequences when unaccompanied by a bounty, they would not only not have abandoned, as they did, the principle, and the previously existing rate of bounty, but would have made a considerable struggle not only to maintain the principle, but to increase the rate. If the proposed increase had been only to 10*s*. payable when the price should be at or under 60*s*., it is highly probable that they would have been successful. And it is quite clear that such a bounty, however insig-

nificant it would have appeared at the time (as no one contemplated that with so high a prohibitory rate of import as 80*s*., the price was ever likely to fall so much below the remunerating rate, which was then held to be 96*s*., as 60*s*.), would have become operative before the expiration of many months after the passing of that bill, and it would have been effectual in preventing the low range of prices between 1820 and 1825.

But when the principle of prohibition, upon being found to be not only ineffectual for its professed object, but in the highest degree injurious to all parties affected by it, was abandoned, and the plan promulgated, upon which the law of 1828 was eventually framed; if the landlords who were then as now all powerful in parliament, had been intelligent enough to perceive the inefficacy of a duty on importation without a bounty on exportation, instead of exerting their influence as they did in procuring the very impolitic alteration which was made in the House of Lords, whereby the pivot price, as it was called, namely, the rate at which the high duty of 20*s*. 8*d*. should attach, was raised from 62*s*. to 66*s*., they had made the concession, apparently great, of restoring the provisions of the Act of 1804*, with the alteration only of raising the rate of the bounty on exportation from 5*s*. per quarter on wheat to 10*s*., and raising also the average price to which it should attach from at or under 48*s*. to at or under 55*s*.; there is fair ground

* By the Act of 1804, the duties on foreign wheat were,—

	£	s.	d.
When under 63*s*. per quarter - -	1	4	3
At or above 63*s*., but under 66*s*. - -	0	2	6
At or above 66*s*. - -	0	0	6

Bounty on exportation of wheat when at or under 48*s*. per quarter, 5*s*. per quarter.

Exportation prohibited when above 54*s*. per quarter.

On other corn the duties, and bounty, and prohibition, in proportion to wheat.

for supposing that, so great being apparently the concession, such a measure would have been more readily acquiesced in by the public than that which was adopted, and which has continued in force to the present time. And there cannot be a doubt, that under the provisions of such an Act as 1804, with only the alteration supposed of *5s.* additional to the bounty, and *7s.* additional to the price at which it would attach, the fluctuations of prices, would have been within a very small range compared with those which we have witnessed.

While, however, it must be obvious, from this view, that the landlords would have been great gainers, if, instead of standing out, as they did in 1828, for a higher import duty, they had made the great apparent sacrifice of a lower maximum price in consideration of a bounty on the export; there is no cause on the part of the public for regret, that they were so short-sighted on that occasion; inasmuch as there is every reason to believe that the average price to the consumer would have been higher in the case supposed, and the public would, moreover, have been subject to additional taxation for defraying the bounty, when it became, as it would have become, operative. Happily, bounties are now so much out of fashion, that there is no longer any chance that this mode of encouragement to agriculture can again be resorted to.

Section 7. — *Suggestion of the Substitution of a fixed Duty.*

There is a very prevalent opinion even among those who are supporters of the principle of monopoly, or, according to the more palatable term, of protection in favour of the home grower, that a

moderate fixed duty would be preferable to the present shifting scale. And among those who claim, on the part of the public, an abolition of the corn law, there is a large proportion who, if a total abolition were unattainable, would prefer a fixed duty. But there is a very wide difference among those who prefer a fixed to the sliding duty, as to what the fixed amount should be.

If it were to be determined merely on the only correct principle, namely, that of countervailing any charges falling exclusively on the home grower, or in a greater proportion than those paid by the rest of the community, the minimum duty of the present scale, namely, 1*s.* per quarter (which, under any circumstances, it would be desirable to maintain, if only for regulation and statistical purposes), would amply answer the justice of the case. But in the absence of any principle, the quantum of duty, if the change were made, would be a compromise of some medium rate between what the landlords might *conscientiously* consider themselves entitled to claim, and what the public would submit to pay. It strikes me that any thing under 8*s.* per quarter would not to the landed interests appear to be worth having; and I have no idea that the public would consider any thing above that rate to be a change for the better. Assuming, 8*s.* as the rate fixed, subject, however, to a reduction to 1*s.* if the price reached 56*s.* or 60*s.*, the change from the present system would be a great improvement in more points of view than one.

In the first place, the averages, and the uncertainty and manœuvring connected with them, would be done away with, as would, likewise, the mischievous anomaly which, by the effect of low condition on the averages, excludes foreign wheat precisely at the time when it is most wanted for mixture with our own.

In the next place, this country would present a constant market, instead of the present capricious one, and would afford an opening for returns for exports beyond that which at present exists, except in the uncertain intervals when the duty is approaching its minimum, and there would be less liability to disturbance of the value of the currency.

SECTION 8.—*Conjecture as to the Prices at which Wheat would range in the event of a Free Trade.*

It may be expected, that in a treatise like this on prices, since so much of the discussions both in and out of parliament has proceeded on the question of the probable range of the prices of wheat in this country in the event of a free trade (by which I mean the retention of the duty of only 1*s*.), a conjecture should be hazarded of the effect on prices of such an alteration.

One among the great difficulties in the way of forming a conjecture on this point is that of taking a sufficient number of years, which should not appear unreasonably long, for the purpose of forming anything like a fair average. A single season like that of 1816, or a recurrence of such at near intervals, like those at the close of last century, which extended their desolating effects over the whole of the continent of Europe, as on the other hand a series of favourable seasons, would make a great difference in an average of ten years. But barring any extraordinary difference in the seasons, I should expect that the price here, with the ports always open at a duty of 1*s*., would, in a series of years of some length, average about 45*s*.

The quantity which we might look to import at an average of the price that I have named, might

approach to from 1,500,000 to 2 millions of quarters. If there were to be a fixed duty of 8*s.* the quarter, I very much doubt whether the annual importation would reach that quantity; and, at any rate, if the average price in this country should, that duty existing, be under 45*s.*, the probability is, that a great part of the importation would be bonded. Indeed, with the ports always open, even subject to a fixed duty of 8*s.* on entry for consumption, I believe that this country, but more especially the port of London, would become the emporium of the trade in corn with Europe and America; and we should thus, independently of the great accession of trade so afforded, be assured of a large available supply, in the event of our own crops being deficient.

To enter into all the grounds on which this estimate of probable prices is founded, would require a treatise devoted to that object, and is beyond the purpose of this work.* I can only say, for the estimate which I have formed, that it is derived from the experience that I have had in the corn trade, and from the best sources of information that I have been able to meet with. Before quitting this point, however, I must observe that my estimate of the price at which a foreign supply might be expected of the extent supposed, may be considered by some of the opponents of the corn laws as strengthening the ground for the supporters of them, inasmuch as such statements may be made

* Among other reasons, however, there are two which may be noticed as having considerable weight in favour of the supposed tendency of prices to vibrate upon a rate of about 45*s.* The one is, that from the experience of the three years during which the price in this country was on an average under 45*s.*, there was no apparent tendency to diminished or deteriorated cultivation in this country; and the other is, that at about that price there are fair grounds for supposing that a moderate, and by no means overwhelming, annual foreign supply would be imported.

to work upon the minds of the farmers, in frightening them with the prospect of cheap foreign corn. And it is partly, perhaps, from an apprehension of this kind, that some of the most distinguished of the opponents of the law have been at great pains to prove that the foreign growers could not afford an annual supply of wheat under a price standing in this market *50s.* or upwards, exclusive of any duty on importation. If they had any sufficient grounds for such estimate, which I am persuaded they have not, the arguments for an abatement of the monopoly would be weakened, inasmuch as there would be so much less to contend for. If a free trade would not afford a supply under *50s.*, while the average price under the monopoly did not, for some years, materially exceed that rate, the argument against the monopoly would be confined to the objections arising out of the extreme fluctuations, and the other inconveniences distinct from price; such as disturbance in the direction of capital, and derangement of the circulation, to which the present scale of duty exposes the country. Those objections are, of themselves, of great weight; but the substantial and enduring ground of objection is, that while subjecting the country to these inconveniences, it artificially raises the price of food to the community, who suffer a loss by it, much greater in amount than the utmost gain derived from the monopoly by the classes in whose favour, and by whose preponderance in the legislature, it is inflicted.

Section 9.—*On the Effect of the Prices of Provisions on the Condition of the Working Classes.*

The state of prices of provisions, and of the rate of wages in the two last years, strikingly confirms

the deductions from previous experience of the little tendency which exists in wages to follow a fall or rise in the prices of provisions except at long intervals, and then only in a degree far short of such fall or rise. When treating of the great fall and cheapness of the prices of provisions in 1833–4–5, I took occasion to observe, that, "the extension of trade, the general but not speculative improvement of the prices of commodities, the undoubted and substantial prosperity of the manufacturing and mining interests, the general employment of the working classes at full wages, and the increase of the revenue, accompanied a great fall of the prices of provisions, but more especially of the price of wheat, which was lower at the close of 1835 than it had been in the last seventy years; thus furnishing a fresh and decisive negative of the often repeated, but perfectly unfounded assertion, put forth by parties interested in the corn monopoly, that high prices of agricultural produce tend to increased demand for other productions, and to extended employment and higher wages to the working population."* With the state of things then described as exhibited at the close of 1835, what a contrast, as regards the working population, is that which is presented at the close of 1839.

In a few instances the wages of agricultural labourers have been raised, but in a very trifling proportion to the rise of necessaries; and in cases where an advance of wages has been granted, it has been rather from motives of fear or humanity on the part of the employers, than as a legitimate consequence, on principles of business, of an improved demand relatively to the supply of labour. While in the manufacturing districts there is not only no increase of money wages, but there is a

* Vol. II. p. 256.

falling off of employment, so that while the prices of provisions are in some instances nearly doubled, and while several other necessaries, and more especially the secondary necessaries, such as tea, sugar, and tobacco, are at a considerable advance, the earnings of the work-people are reduced; they are thus suffering cruelly under the twofold evil of having their little income less, and of finding that reduced income going a much less way in the supply of their most urgent wants.

The present state of things, therefore, furnishes fresh proof, if additional proof had been wanting, of the negative of the dogma of the advocates for restrictions on the corn trade, that the landlords and farmers getting higher prices must be the better customers and employers of the manufacturers, shopkeepers, and labourers; and in that way to hold out more than compensation for the higher prices which the latter classes are obliged to pay for their food. I do not mean to say that in the present case the high price of provisions is exclusively attributable to the corn laws, but it is here adduced as adding, to all former experience, a striking instance of the utter want of foundation in fact, as well as in reasoning, for the supposition that a high price of food can be a cause of increased employment and advanced real wages to the working classes.

CHAP. II.

ON THE PRICES OF PRODUCE, OTHER THAN CORN.

The state of prices of raw produce, and of commodities generally, as likewise, indeed, of labour, in the two last years, viz. 1838 and 1839, is pregnant with illustrations of the theory which, with reference to the practical working of the system of our currency, as it has existed, both during the bank restriction and subsequent to the restoration of cash payments, it has been the purpose of the former part of this work, as it is of the present continuation of it, to establish.

In the preceding chapter it has been seen how little of the fluctuations in the price of corn could be traced to the state of the circulation as a moving force; and it will be found that a reference to the prices of other produce and of labour will equally prove the absence of any direct agency of that cause.

When giving an account, in the preceding part of this work, of the state of the markets, and of the disturbed state of credit in 1836 and part of 1837, it was observed, that those articles only which had manifestly been the subjects of exaggerated demand in the branches of trade, to which alone a great abuse, that is, an undue extension of credit, had applied in 1835 and the earlier part of 1836, were observably depressed by the great contraction of credit in the last six months of 1836, and the first half of 1837; such contraction of credit being confined, as the previous extension had been, to the American and East India trades, but principally to the trade with the United States of America.

As, according to the general laws which govern markets, such articles as have risen beyond the due level, from an exaggerated demand, or, in other words, from anticipation of higher prices on grounds not warranted by a correct appreciation of the proportions of supply and demand, (such exaggerated anticipation of demand being favoured by an undue extension of credit,) usually fall in nearly an equal degree below that level; so, when any particular market has been depressed by a failure of credit, and by an exaggerated apprehension of further fall, there is a rebound which not unfrequently proves to be beyond the occasion. This was the case with several articles of American and East India produce, which having been unduly depressed by the failure of credit in those branches in the first six months of 1837, rallied towards the close of that year, and attained prices which, when the supplies for the season came forward, could not be maintained. There was, accordingly, a considerable degree of dulness, and a drooping tendency of markets for those descriptions of produce in the spring of 1838; and, excepting in the corn markets, the rise of which has been the subject of explanation in the preceding chapter, there was a general character of quietness prevailing in the markets for commodities through the greater part of that year, with a tendency, however, towards the latter part of it, to an advance in the price of several articles, besides corn, of which the supplies proved to be below expectation. This is the more to be observed, inasmuch as the period of the greatest dulness, or at least of the most completely quiet markets, and the lowest prices of commodities, in the summer of 1838, were coincident with a greater amount of Bank of England notes in circulation than there had been for many years before; the amount, according to the return

dated 24th August, 1838, was 19,481,000*l.*, while in the three months ending 8th March, 1836, when there was so much excitement and over-trading, it had been only 17,439,000*l.* Here was an increase of 2,000,000*l.* in the circulation, while the market rate of interest was, for the best bills 3 per cent., and in some instances as low as 2½ per cent.; and during the progress to this state of things in the money market, the markets for produce, with the exception of corn, were dull, which is another word for absence of briskness of demand. This being the state of the markets for commodities, and the state of the money market, in the summer of 1838, as exhibited by the amount of the circulation, and by the rate of interest, it may be not uninteresting or uninstructive to compare those several conditions with what they were in the corresponding season in 1839.

The markets for produce in the summer of 1839, (subject only to the usual oscillation incidental to the supply and consumption of most articles of raw produce,) after having maintained a remarkably steady tendency to advance coincidently with a progressive though slow reduction in the amount of the circulation, and with a very decided and unusual increase in the rate of interest and discount, were, with exceptions not worth mentioning, at a higher range of prices than they had been at the corresponding time of the preceding year. During the whole progress

It may not be uninteresting to see the impression which was made by this state of things while in progress. I therefore insert the following extract from the city article in the "Times" of the 6th July, 1839, which gives, as I considered at the time, and believe it to be, a very correct representation.

"With respect to the state of money, there is no material alteration, but confidence is diminishing in the symptoms of improvement manifested early in the week. All the portfolios of the leading merchants are full of foreign bills to an unusual degree, while our trade exportations do not by any means sup-

of the recent pressure on the Bank of England there was no period in which more alarm and anxiety prevailed in the money market than in the middle and latter part of July last, when the apprehension entertained by the directors themselves was evinced by their desire of selling their dead weight, and when it was known that they had, in the alternative of not effecting such sale, applied to the Paris bankers for assistance. It was known, too, that the Bank rate of discount, which had already been advanced to 5½ per cent., was to be raised, and it was apprehended that the advance would not stop at 6 per cent., to which it was raised on the 1st of August. For some weeks before, and during the progress of this pressure, the newspapers were teeming with forebodings, according to the currency theory, of the result of such measure by the Bank for its safety, in knocking down prices, by forcing sales of commodities. And, in fact, it was given out to be the creed of the Bank directors that they could not be expected to stop the drain on its coffers without forcing down the prices of commodities. As far, therefore, as an actual reduction of the circulation, a great and very unusual rise in the rate of interest, and an

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ply a substitute for them as they arrive at maturity, so that a further drain of bullion is thought to be inevitable. *The restraining measures at the Bank have not had the effect of lowering the prices of any articles of commerce,* with the exception of cotton; and with respect to that, it is now very generally ascribed rather to the diminution of consumption to which the spinners in self-defence have resorted than to any other cause. It follows, consequently, that though the financial crisis is a severe one, and places the Bank of England, in particular, in a most embarrassing situation, the merchants are, comparatively, quite at their ease. The foreign exchanges have not at all improved this afternoon, and the rates on Paris and Hamburg are both lower. The quotations were — Amsterdam, 12½ to 1; Paris, 25 15 to 20 (short); Hamburg, 13 10¼ to ½ at 3 months."

almost universal opinion, which, of itself, is sometimes of powerful operation in realising the result to which it is directed, could be supposed to have a direct influence on the markets for commodities, it might be imagined as an inevitable consequence that those markets must of necessity be much lower in August, 1839, than they had been in August, 1838. But how stand the facts?

By the Bank returns, the circulation, which had been on the average of 3 months, in August, 1838, 19,481,000*l.*, was in August, 1839, 17,969,000*l.* The Bank rate of interest and discount, which had been 3½ and 4 per cent., was raised to 6 per cent., but the market rate, which in the first six months of 1838 had been one per cent. below the Bank rate, was in the summer of 1839 considerably above it; and good bills, which were not within the date or other rules prescribed by the Bank, and consequently not discountable there, were not convertible but on terms which, whether charged as discount merely, or with commission in addition to discount, amounted to 7, 8, and in some instances, I believe, to 10 per cent. per annum.

Under these circumstances, a comparison of the prices of commodities at the two periods is peculiarly calculated to serve as a test of the currency theory. In the list of articles which may be considered as showing the general state of prices, if I were to give the quotations from those which will be found in the Appendix to the present, in continuation of the former part of this work, I might be liable to the supposition of being under a bias in the selection. and in straining the quotations of prices, as is too often done when a purpose in controversy is to be answered. I therefore here give a list of articles and the prices attached to them, exactly as they are stated in a very useful weekly publication, very ably conducted by Messrs. Henry Burgess and Co., entitled " The

Circular to Bankers." The quotations of prices are regularly appended to each circular under the following head: —

Prices of such of the principal and most bulky Articles of Merchandise as would, when viewed collectively, show the general State of Prices of all Commodities. *

(d. p. means *duty paid*, bd. means *in bond*.)			August 3. 1838. £	s.	d.		£	s.	d.	August 2. 1839. £	s.	d.		£	s.	d.
Ashes,	bd.	United States pearl	0	0	0	to	0	0	0	0	0	0	to	0	0	0
—	bd.	Russia	1	6	6	—	1	7	0	1	5	0	—	0	0	0
Coffee,	bd.	Jamaica (fine)	5	14	0	—	6	11	0	6	4	0	—	7	18	0
—		— (ordinary)	3	18	0	—	4	16	0	4	10	0	—	5	2	0
—		Berbice (fine)	5	10	0	—	6	2	0	5	18	0	—	7	0	0
—		Ceylon	4	3	0	—	4	19	0	5	0	0	—	5	4	0
Cork-Wood,	d. p.	French	4	10	0	—	5	0	0	4	10	0	—	5	0	0
Cotton,	d.	Upland	0	0	5½	—	0	0	7¼	0	0	7½	—	0	0	9
—	bd.	Surats	0	0	4	—	0	0	5⅜	0	0	4⅜	—	0	0	6⅛
Flax,	d. p.	Riga, PTR.	0	0	0	—	0	0	0	47	0	0	—	50	0	0
Hemp,	d. p.	Riga Rhine	31	0	0	—	34	0	0	38	0	0	—	40	0	0
—		Petersburg (clean)	31	0	0	—	31	10	0	37	0	0	—	0	0	0
Hides,		Buenos Ayres (1st and 2d)	0	0	5	—	0	0	8½	0	0	5	—	0	0	9
Indigo,	bd.	fine and good purply violet	0	7	3	—	0	7	6	0	9	0	—	0	9	3
—		middling do.	0	6	10	—	0	7	2	0	8	4	—	0	8	9
Iron,		(English) in bars (in London)	9	10	0	—	0	0	0	10	5	0	—	0	0	0
—		pig do.	6	0	0	—	0	0	0	6	0	0	—	0	0	0
—	bd.	Swedish	12	10	0	—	0	0	0	14	10	0	—	14	15	0
—		Archangel	11	15	0	—	0	0	0	0	0	0	—	0	0	0
Lead,	bd.	in pigs	19	0	0	—	0	0	0	18	10	0	—	19	0	0
—		foreign Spanish	18	10	0	—	0	0	0	0	0	0	—	18	10	0
Linseed,		Baltic (qr.)	1	18	0	—	2	6	0	1	18	0	—	2	2	0
Mahogany,		Honduras (foot)	0	0	5¾	—	0	1	0	0	0	6½	—	0	1	3
—		St. Domingo	0	1	0	—	0	4	0	0	1	0	—	0	2	6
Oils,		Whale	0	0	0	—	0	0	0	0	0	0	—	0	0	0
—		Southern Fishery (pale)	25	0	0	—	27	0	0	23	0	0	—	25	0	0
—		Gallipoli	52	0	0	—	0	0	0	54	0	0	—	0	0	0
Rum,	bd.	Jamaica, 10 to 20 (O. P.)	0	3	8	—	0	4	0	0	0	0	—	0	0	0
—	bd.	Demerara, 3 to 20 (O. P.)	0	3	2	—	0	3	6	0	3	8	—	0	4	8
Saltpetre,	bd.	rough (cwt.)	1	2	0	—	1	5	6	1	3	0	—	1	8	0
—		British refined	1	8	0	—	1	8	6	1	9	0	—	1	9	6
Silk,		Italian (Piedmont, white, per lb.)	1	10	0	—	2	6	0	1	15	0	—	2	3	0
—		Modina (raw)	0	14	0	—	0	16	0	0	19	0	—	1	0	0
—		Brutia (Turkey)	0	14	0	—	0	14	6	0	15	6	—	0	16	6
—	bd.	Bengal Novi	0	12	6	—	1	2	0	0	12	6	—	1	0	0
Sugar,		Jamaica (fine, per cwt.)	3	0	0	—	3	2	6	3	5	6	—	3	8	0
—		Mauritius (brown)	2	4	0	—	2	11	0	2	19	0	—	3	2	6
—	d. p.	East India (Bengal, yellow)	2	15	0	—	2	19	0	3	0	0	—	3	5	6
Tallow,		Petersburg (Y. C. cwt.)	2	6	6	—	0	0	0	2	11	0	—	0	0	0
—		Delivery last three months	2	5	9	—	0	0	0	2	9	0	—	0	0	0
Tea,		Bohea (Canton, per lb.)	0	1	2¼	—	0	1	4	0	0	11	—	0	1	0
Tobacco,	bd.	Kentucky and Carolina	0	0	3¼	—	0	0	6½	0	0	5½	—	0	0	10
—	bd.	Virginia (ordinary)	0	0	2½	—	0	0	3¾	0	0	5	—	0	0	7½
Timber,		Quebec oak (load)	7	0	0	—	7	10	0	7	0	0	—	7	10	0
—		— pine (red)	4	17	6	—	5	0	0	4	10	0	—	4	15	0
—		Riga fir	5	12	6	—	0	0	0	5	12	6	—	0	0	0
—		Dantzic and Memel	5	2	6	—	5	10	0	5	2	6	—	5	10	0
Wool,		Germany Electoral, per lb.	0	4	6	—	0	6	0	0	3	9	—	0	5	0
—		— lower qualities	0	1	7	—	0	1	11	0	1	10	—	0	2	0
—		Australian and V. D. Land, 1st combing	0	2	2	—	0	2	9	0	2	4	—	0	2	10
—		— — 2d —	0	1	8	—	0	2	3	0	1	9	—	0	2	3
—		— — 3d —	0	1	5	—	0	1	9	0	1	5	—	0	1	8
—		English—N. & S. Down Hoggits	0	1	6	—	0	1	7	0	1	6	—	0	1	9
—		Kent combing fleeces	0	1	5	—	0	1	6	0	1	5	—	0	1	6
—		The longwool of Lincoln, Leicester, Warwick, from the grower	0	1	4	—	0	1	6	0	1	4	—	0	1	6

* The prices of corn are given in the circular among the other quotations, but as those prices have already been referred to and accounted for, it is not necessary here to notice them.

If any considerable proportion of these articles had fallen in price under circumstances the reverse of those which had raised them, such fall would infallibly have been set down to the operation of the currency as an originating cause. There can be no doubt that if there had been an excess of supply of any of the articles, and if that excess, or a part of it, had been imported or held on credit, or, which is the same thing, on capital borrowed for a limited period, the fall from mere excess of supply would be aggravated, that is, would be more abrupt, and to a lower point of depression in a contracted or difficult state of the money market, or, in other words, in a state of discredit, and a high rate of interest. Thus, in the case of the depression of the markets for particular descriptions of produce in the summer and autumn of 1836, the articles which fell in price were nearly all connected with the overtrading of that period in the American and China trade, and the fall was from excess of supply, and from the failure of credit of the importers or holders, as also from falling off of demand from the United States. The proof that such had been the causes, was in the fact that the markets, which were unconnected, directly or indirectly, with those branches of trade did not participate in the depression.

Such, however, is the tendency to infer the relation of cause and effect from mere coincidence, that, as I had occasion to observe when treating of that period, the fall of prices was said, and commonly believed, to be general; and to have been exclusively caused by the state of the money market. Thus, in a Tract which I have before referred to, on "The Causes and Consequences of the Pressure on the Money Market in 1836," it was observed, — "The fall in price of almost all the articles of raw produce (sugar, coffee, tea, silk, cotton piece-goods, metals, drugs, &c.), from the

1st July last, when the rate of interest was first advanced, has not been less than from 20 to 30 per cent." Now the advance in the Bank rate of discount in July of that year was only to 4½ per cent., and afterwards to 5 per cent., and the market rate had not advanced in any thing like the proportion that it did in 1839; moreover, the markets in which there was no notorious excess of supply, and which had not been under the influence of the exaggerated demand from America, were not more disturbed by the pressure on the money-market in 1836 than they have been in 1839,—why, therefore, should the smaller rise in the rate of discount in 1836 produce such an effect?

So prevalent has been the notion of an intimate and necessary connection between the state of the money market and the prices of commodities, that the general high range of the markets for produce throughout the whole of 1839, the firmness of nearly all of them, and the buoyancy of many of the most considerable of them, during the period of the greatest pressure, has been a constant matter of surprise, and has puzzled most of the persons who are under the influence of the currency doctrine, to account for. The most general explanation that I have heard attempted has been, that there was a scarcity of commodities, and that, if it had not been for the pressure on the money market, there would have been speculation, and still higher prices. But if the money market had been easier, and if, in consequence of such greater facility, prices had risen last summer higher than they did, the effect, by this time, would have been larger supplies, or a diminished consumption, or both; and in that case, prices, with the utmost facility of the money market, would be lower now than they are. Sufficient proof, however, has been afforded in the article of Tea, how little the money market deters speculation where real grounds, from

actual or apprehended scarcity, exist for the anticipation of a considerable advance of price. The market for this article had been, during the first six months of 1839, in a quiet and rather dull state. But upon the arrival of the accounts from China of the seizure and confiscation of the opium, and of the violent proceedings of the Chinese government, causing a suspension of the shipments of tea from thence, with every appearance of an interruption for a considerable length of time, if not a total cessation of the trade, a speculative demand arose. In a few weeks, the prices of the descriptions constituting the bulk of the supply advanced by no less than 120 and 150 per cent. And during the progress of that advance, the market exhibited all the character of wildness which has been ascribed exclusively to the state of markets during the Bank restriction *, or more recently in 1825. But, in point of fact, there was no such speculative rise in any of the markets for produce (the limited and comparatively insignificant article of spices excepted) in

* It is surprising how unconscious the public, or at least the reasoners among the public on alterations in the value of the currency, are of the complete analogy which the recent rise of 150 per cent. in the bonded prices of Tea exhibits to the rise of prices which occurred during the war in various articles of which it was apprehended that all future supply would be permanently cut off, such rise of prices being supposed by those persons to have been *caused* by the Bank restriction.

The following account of the rise and progress of the Tea speculation is extracted from the supplement to the "London Price-current" for the year 1839.

"Tea.—The past year has been remarkable for an extraordinary rise in the prices, the consequence of a speculative demand, founded on an anticipated diminution or cessation of supplies, by reason of the interrupted trade between the Chinese and English merchants since the extensive seizure of opium at Canton. The market continued generally steady until July, by which month and in August a rise of 2*d.* per lb. took place in Congou. In October the prices paid were 5*d.* higher. And at the December sales, when the highest prices were paid, Congou, which at the beginning of the year was dull of sale at 1*s.* 1*d.*, realised 2*s.* 7*d.* to 2*s.* 8*d.* per lb."

1825, as has recently been witnessed in Tea, an article in which very large capitals are invested. I have been assured that some parcels, during the progress of the rise, changed hands at least eight times.

The fluctuations in the cotton market, and the causes of them, namely, the deficient crops in America in 1838, and the exaggerated anticipations by the planters of such an advance in price as, in their opinion, cotton ought to fetch in this country, — those exaggerated anticipations having been promoted and rendered operative by the assistance and participation of the United States Bank, and other banks in America, — are matters of such notoriety, and have been so often referred to, and so fully described in connection with the deranged state of the southern and western banks of America, as to supersede any detailed description of them here. The highest elevation of prices under the influence of the operations for artificially enhancing the value, by undue banking aid and participation, was attained in the early part of the spring of 1839. The decline from that price has been ascribed in some of the American newspapers to "the putting on the screw" (according to the slang term) by the Bank of England. But, in point of fact, the decline in the price of cotton began before any advance in the rate of interest by the Bank, and for a very sufficient reason, namely, that the manufacturers, finding that the stocks of yarn and cotton goods had, in consequence of the great additional power which had been applied, by the erection of new mills in 1836, 1837, and 1838, outrun the consumption, very naturally, and as they would and must have done in their own defence, even if the utmost facility of the money market had prevailed, determined to work short time. They have thus succeeded in tiding over the effects of the deficiency of the cotton

crop of 1838, and are enabled, by the return of abundant supplies at moderate prices, to be in train *for resuming full work, with the restored prospect* of a steady trade.

There are two reasons which are unanswerable against the assertions put forth on the part of the American cotton speculators, that it was the putting on of the screw by the Bank of England that disconcerted their operations, by causing the decline of the prices in this country. In the first place, the decline of prices from their highest artificial elevation, in March, 1839, had begun, and the failure of the speculation had become evident before the Bank had shown the least disposition to put on the screw; indeed, the cheapness of money at that time is, as will be seen, one of the charges that have been brought against the Bank of England. And, secondly, if the putting on of the screw was solely, or even mainly, or *at all, a cause* of the fall in the price of cotton, how happened it that the same screwing process did not affect other raw materials in this country at the same time? But, indeed, a further question may be asked, and that is, — If the mere action of the Bank of England is considered as having caused a fall in the price of cotton in this country, how is the fact to be accounted for, that at the end of July, 1839, when the screw was in its fullest operation, the prices of cotton were higher than they had been in July, 1838, when the money market was in the easiest possible state?

During the few weeks at the close of 1839 there has been a decline in some of the articles enumerated in the table at p. 59; and the quotations on the 31st December last are lower than those in December, 1838. But as the markets were advancing at the close of 1838, in consequence of the stocks (of which comparative statements, at that time of the year, are usually made)

being found to be rather below expectation, so, in December, 1839, the markets, in some instances, have declined upon its being found that the stocks were larger than they had been at the corresponding period of 1838. As far as I can learn or judge, there is no fall of prices in any description of produce from pressure of sellers, or in any degree beyond what might be expected, in the easiest state of the money market, from a mere reference to the supply compared with the estimated rate of consumption. But there is this further most important consideration, as bearing upon the question of the connection between the prices of commodities and the state of the circulation, that the state of prices, taking the great majority in point of bulk and value of the articles, at the close of December, 1839*, was higher than it had been in August, 1838; the comparison of the circulation stands thus,

August 21. 1838	-	-	-	19,481,000*l.*
January 7. 1840	-	-	-	16,366,000*l.*

The Bank rate of interest and discount having risen in that interval from 3½ and 4 per cent. to 6 per cent., and the market rate from 3 per cent, to 7 and 8 per cent.

Again, if we take prices as they stood two years ago, and compare them with present prices, we shall find that, with exceptions hardly worth mentioning, they are higher now than they were then; the intermediate variations having been in a very extraordinary degree in a direction precisely opposite to that which, according to the currency theory, would have been inferred. Thus, while the circulation had been increasing between December, 1837,

* For the prices at the close of 1839, see in the Appendix the quotations in the "Bankers' Circular" of December last, and in the continuation of the Table of Prices, which is appended to the second volume of this work.

and August, 1838, by about 1,500,000*l.*, and the Bank rate of discount had been reduced from 5 to 4 per cent., and the market rate in a still greater proportion, the markets for the majority of articles of produce at the latter date were drooping; as, on the other hand, we have seen that while the circulation was in a slow but progressive reduction to its recent comparatively low amount, and while the pressure on the money market was becoming most severe, prices were rising; the advance of prices applying to a larger number and value of the articles which are considered as indicative of the purchasing power of money, than will be found to have been the case in any two previous consecutive years.

It is difficult to conceive grounds of presumption stronger than these of the absence of the necessary connection which is so constantly supposed and asserted to subsist between variations in the amount of the Bank of England issues, or in the state of the money market, and the state of prices.

It may be contended, however, as it has been on former occasions of controversy on the question of the influence of the currency on prices, when the discrepancy, by a reference to the Bank of England issues, was too great to be got over, that it was the country banks, which, by their inordinate issues had caused a great rise of prices, and by their subsequent contraction a great fall of prices. I have examined that point at some length in former parts of this work; and I may have occasion, when treating more distinctly hereafter of the state of the circulation, to refer to the question of the connection between the country bank issues and the state of prices. I will here only, therefore, observe that a reference to them will not explain the phenomena of the state of markets for produce, inasmuch as the great increase of issues had been in 1838, when nearly all articles, corn ex-

cepted, — which exception will of itself go a great way towards explaining the cause of this increase, — were lower than in 1839; and the greatest reduction of issues was in progress between June and September, 1839, when the markets for nearly all descriptions of produce ranged very high. Having given the foregoing general view of comparative prices, relatively to the amount of the Bank of England and country bank issues, I propose in the following chapter to examine more particularly the causes and effects of the variations which have taken place in the circulation in the last two years.

CHAP. III.

ON THE STATE OF THE CIRCULATION IN 1838 AND 1839.

The state of the circulation has undergone, within the two last years, such variations in its relation of cause and effect with the exchanges, with the rate of interest, with commercial credit, and above all, with the position of the Bank of England, that a painful degree of public attention has necessarily been fixed upon it: and independent of the generally prevalent anxiety to investigate the causes of these variations, and to provide, as far as practicable, a remedy against their recurrence in such a degree as that in which they have recently been experienced; an examination of the circumstances which have given rise to them, and of their actual and probable consequences, forms an essential part of the subject of prices, to elucidate which is the object of the present publication, as it was of the work of which this is a continuation.

The most convenient mode, as it strikes me, of conducting the examination of the several questions to which the phenomena of the circulation, in the period under consideration, naturally give rise, will be to enquire,—

1. What have been the causes which, independent of the Bank's regulation of its issues, have operated on the exchanges in such a degree as to produce a strong tendency to an efflux of bullion?

2. How far, if at all, the Bank's regulation of its issues has been connected by the relation of cause and effect with the depressed state of the exchange, and the consequent drain of bullion?

3. What has been the influence of the Bank's regulation of the paper currency on the variations which have occurred in the prices of commodities, and of shares in joint stock companies, and on the rate of interest; or, in other words, on the markets for produce and for shares, and on the money market?

4. How far the regulation of the paper and credit part of the currency admits of being conducted without a recurrence of the danger of suspension of cash payments?

SECTION 1.—*Causes of the recent Depression of our foreign Exchanges, and the consequent Drain on the Coffers of the Bank of England.*

When treating, in the foregoing chapter, on the state of markets for agricultural and other produce, it was observed that, with the exception of the great rise in the price of wheat, and the disturbed state of the cotton trade, and, more recently, the great rise in tea; the two years since the close of 1837 have not been marked by any spirit of speculation in goods, or by any elevation of prices, beyond such as a fair mercantile view of the relative state of supply and demand fully warranted. Nor, with the single exception of corn, have the prices of commodities in this country, as compared with those abroad, been, during that interval, or in any part of it, at such a relative rate as to indicate, by that criterion, any diminution in the value of our currency, compared with the currencies of foreign countries.

It is very material to bear in mind this circumstance, as it furnishes a striking illustration of a position which I have before had occasion to ad-

vance, namely, that, although the prices of commodities form the medium through which the tendency to a level in the distribution of the precious metals in the commercial world operates, in the long run, there are disturbing causes which may, during very considerable intervals, act powerfully upon the exchanges, and induce, in a convertible state of the currency, a strong tendency to an efflux of the metals, to counteract which, extraordinary efforts may be requisite on the part of the regulator of the currency, which, in this country, is the Bank of England; while, during the whole time, there may have been no intermediate derangement of the ordinary level of the prices of commodities.

The prices of corn, indeed, advanced in the course of 1838 very much beyond their ordinary level, of late years, in this country, and beyond the level of prices abroad, so as to induce an unprecedentedly large importation; the payment for which has been one of the depressing causes operating upon the exchanges: such occasional necessity for extraordinary payments abroad being one of the many evils attendant on the corn laws. But, as the rise in the price of corn was not caused by an enlargement of the circulation — such rise having been proved to be justified by a great deficiency of our own crops — and the importation not having exceeded what was necessary to make up for that deficiency, it must be regarded, not as an indication of a circulation depreciated by excess, but as a disturbing cause, operating on the balance of foreign payments, much beyond what would otherwise have been the balance of trade, in the ordinary state of the circulation, such as it then existed. However, the extra payments for foreign corn, large as they have been, and sudden as the call has been for them, have not been of such magnitude or duration as alone to be sufficient to ac-

count for the long-continued depression of the exchange, and the consequent uninterrupted drain on the coffers of the Bank. The value of the foreign corn imported in the two years 1838 and 1839 may be computed at about 10,000,000*l.* But there was a considerable excess of exports from this country in those two years, particularly in 1839. And although it is probable that, as usual, a considerable part of those exports may have been for account of the manufacturers or shippers on this side, and therefore not immediately available as payment for the corn imported; yet a part of that excess of exports must have gone towards that payment, the whole of which, therefore, cannot have operated in creating the adverse balance of payments. Whence, then, the continued heavy pressure on the exchanges, which so nearly had the effect of draining those coffers dry? In former instances, the large and long-continued balances against us of foreign payments, which, on two memorable occasions previous to the Bank Restriction Act, nearly exhausted the stock of bullion before the exchanges had turned, were plain and palpable causes, and so obviously violent in their operation, that it is matter of wonder they could be counteracted and surmounted; for surmounted they were, and the exchanges were effectually turned by a resolute and extraordinary degree of contraction of the circulation. I allude to the instances in 1782–3, and 1795–6, when the payments for importations of foreign corn, though large for that period, formed only a small proportion of the payments abroad, for the maintenance and pay of troops and transports, such payments, in the latter period, being increased by remittances to foreign powers for subsidies. In 1799 and 1800, and again from 1809 to 1814, foreign extra payments for corn, and for military purposes were

on a still increased scale, and the paper, being no longer convertible, the increased value of the foreign currencies, from these causes, was shown in a great depression of foreign exchanges. In 1818 there were large importations, not only of foreign corn, but of nearly all other descriptions of foreign produce; and to the payments for these were added the remittances for the large foreign loans negociated, for the greater part, with capitalists in this country. In this instance there was some efflux of the metals; but the remainder of the effect of the adverse balance of payments (the paper not being then convertible) was felt in the exchanges; which were hardly so much depressed (about 8 per cent.) as might have been expected from the operation of such powerful causes: and yet their mere recovery, upon the cessation of these causes, in 1819, is implicitly believed to have been the exclusive effect of Peel's bill.

The derangement of the circulation, and the drain, nearly to exhaustion, of the Bank treasure in 1825, was the result of many concurrent causes, which rendered the whole of the circulation redundant in such a degree as fully accounted for the sudden and extensive pressure on the exchanges, and the consequent efflux of bullion. These causes I have pointed out, in a former part of this work, and I shall have occasion to refer to them hereafter more particularly.

In the interval from 1828 to 1832 there was a considerable fluctuation of the Bank treasure. Twice, during that period, the drain proceeded to a great extent. The causes, however, admitted of sufficient explanation, which already has been given, in treating of the circulation during that period. In each of those cases, between 1828 and 1832, the drain was surmounted without effort, and without any occasion for raising the rate of the Bank discount above 4 per cent.; consequently

without any observable disturbance of the money market.

On the minor fluctuations of the treasure, between 1832 and 1836, it is unnecessary to dwell, as they entailed no consequences worth mentioning. The circumstances connected with the reduced state of the stock of bullion in 1836 and the early part of 1837 were, —

1. The excessive credits to the United States of America, creating a temporary balance of payments against this country for American accounts.

2. The negociation of Dutch and other foreign securities attracted by the low rate of interest here.

3. An internal demand, although to no great extent, for Ireland.

If to these had been added a demand, in the autumn of 1836 for foreign corn, by a deficiency of our own harvest, the coffers of the Bank would have been in as imminent danger of exhaustion in 1837 as in 1839.

Of the causes of the heavy balance of foreign payments, which have recently so nearly run the Bank aground, those which have been most distinctly operative may be classed under the following heads: —

1. The large importations of foreign corn, the computed amount of which, in the two years, was to the amount of about ten millions sterling.

2. The state of financial and commercial relations with the United States of America.

By the financial state, I mean our over-importation of American securities, which were created chiefly by bonds of the separate states, and by the United States Bank, and other American banks and joint stock companies.

By the commercial state of our relations with that country, as having contributed to the recent derangement, I mean, not only a renewed tendency which there might be to an excess of mere mercan-

tile credits, but mainly the peculiar circumstances of the cotton trade.*

3. The state of credit on the continent of Europe.

It is well known, that in France and Belgium, three or four years ago, the system of joint stock banks was brought into operation on a very extensive scale; not only for purposes of deposit and discount, and the ordinary functions of mere bank-

* The peculiar circumstances to which I allude, were the unjustifiable and extravagant operations of the United States Bank, followed by the banks of the western and southern states, in making advances on cotton to the planters (if not, as reported, taking the cotton off the hands of the latter), with a view of withholding it from the manufacturers in this country, unless it should reach a price adequate to the exaggerated notions which prevailed on the other side, of the increased value which the article ought to bear, in consequence of an ascertained deficiency of the crop.

The shipments of cotton, when they did take place, after being held back some time, were consigned to agents on this side, for the account of shippers on the other side, but were still held by that factitious assistance of spurious banking credit; so that, our manufacturers, although mostly out of stock of the raw material, bought most sparingly, reducing their mills to working short time. This struggle, which was of a kind that commonly takes place whenever raw produce is held at what the manufacturers consider an exaggerated rate, became, in this instance, of importance only from the magnitude of the space in our manufacturing industry which is occupied by raw cotton. In the struggle, the manufacturers succeeded, as they always do when it so happens, as it did in this instance, that the stock of wrought goods (in their various stages from yarn to the finished article) in hand, both in this country and abroad, had outrun the consumption. In truth, to our manufacturers the insane attempt at artificially enhancing the price was the most salutary occurrence imaginable, as it compelled them to reduce their work; and they thus escaped a loss which they must have sustained if they had got into stock at the moderate advance which in consideration of the deficiency of the crop they might have been induced to give.

But the effect, as regarded our exchanges, was a reduced amount of manufactured cotton goods for exportation, while the importation of the raw cotton had been mostly paid for by advances which the consignees on this side obtained upon it. I mention this as one, although a minor item, in the account of the causes of the balance of payments against this country.

ing, such as the safe and economical transmission of funds from one part of the country to another, by bills of exchange and credits, but also for the circulation of notes payable on demand. There was, besides, in both those countries, a very general spirit of speculation and over trading, which prevailed in various ways, one of which was manifest in a remarkably great extension of joint stock companies for different purposes.

The effect of these operations, according to their extent, and in the degree in which the additional medium of paper and credit outran the power of absorption without diminished value, must have tended, in various ways, to displace a portion of the metals equivalent to the excess of paper. And it is probable that some part of the tendency to an influx of bullion, which set so strongly into this country during the twelve months from May, 1837, to May, 1838, may have arisen from this cause. But in the autumn of 1838, the Bank of Belgium failed, and there was a severe run upon Lafitte's bank in France, accompanied by a considerable revulsion of commercial credit, the extent and degree of which are attested by the number of bankruptcies in those countries in 1838 and 1839, and by a much more severe pressure on the trade and manufactures in those countries than has been experienced here.

The inevitable effect of the derangement of commercial credit in France and Belgium was an increased value of the precious metals; which, through the medium of their foreign exchanges, would therefore be re-imported, and in part, if not chiefly, from this country.

There appear likewise to have been causes in operation in the interior of Germany tending to an absorption of the metals, but whether to replace paper in discredit, or to answer financial purposes, does not appear. A letter, dated Francfort, Sep-

tember 8., 1839, inserted in the Times of the 14th September, alludes to the prevalence of a report "that some bankers were on the point of answering "orders from their south German correspondents "for a supply of silver coin." There have likewise been, from time to time, other allusions to a demand from the same quarter for silver in exchange for paper.

The Russian government appears to have found an increasing degree of inconvenience from its almost exclusive paper currency, however carefully regulated, for some years past; and accordingly, by an ukaze issued in July last, it has restored the former nominal standard, making the late paper ruble convertible at the rate of three rubles and a half into the silver ruble, which is intrinsically worth 3*s.* 3*d.* With a view to this alteration, there is reason to believe that there has been, chiefly through Amsterdam and Hamburg, and from the interior of Germany and Prussia, a considerable absorption of the metals in the two last years.

In some of the German papers, too, mention is made of the suspension of specie by the Bank of Batavia (Island of Java), caused, it is there said, by an unusual demand for silver for China. The peculiar state of things in China, connected with the proceedings of the government of that country against the contraband trade in opium, may have added to the causes of demand for silver there.

Not any one of the causes enumerated under the foregoing heads would singly have been sufficient to produce such an effect on the exchanges as to have required any very considerable effort on the part of the Bank to counteract it, or, in other words, to have occasioned any difficulty in the regulation of its issues. But, combined, as those causes have been, with the addition, probably, of others too deep-seated and remote to admit of

being clearly traced, they required, on the part of the Bank, a considerable vigilance to perceive the indications, and much promptness and firmness of purpose to apply timely and effectual precautionary measures. In what degree the Bank's regulation of its issues can be considered as having originated and aggravated or counteracted and mitigated, the operation of those causes, will form the subject of the following examination.

Section 2.—*On the Regulation of the Bank Issues in* 1838 *and* 1839.

The state of the circulation, which had been partially disturbed in 1836 and 1837, had, at the commencement of 1838, been restored to a perfectly sound condition.

The position of the Bank, on the average of the three months ending April 3d, 1838, was,—

	£		£
Circulation -	18,987,000	Securities -	22,838,000
Deposits - -	11,262,000	Bullion - -	10,126,000
Liabilities -	30,249,000	Assets - -	32,964,000

Here the bullion was in the proportion of more than one half to the circulation, and had reached the full amount, which, according to the system professed by the directors in their evidence in 1832, was held to be the desideratum, namely, the proportion of one third of their liabilities, or perhaps, more properly speaking, in the language of that evidence, what was considered as a full currency. But however satisfactory was the position of the Bank, if viewed with reference merely to the perfect solidity and safety of the then existing state of the currency, the accumulation of so large a portion of unproductive stock, while the

securities had been so considerably reduced on a comparison with what they had been for some time before, gave rise apparently, in this instance, to the impatience which has been almost uniformly manifested on the part of that establishment on similar occasions, to find means of employing a portion of it productively.

In order to the more ready reference to the position of the Bank of England at the different periods which will be the subject of comment and comparison, a table of the Monthly Gazette returns is inserted.

AVERAGE OF THREE MONTHS.

	Circulation.	Deposits.	Securities.	Bullion.
1838.	£	£	£	£
9th January -	17,900,000	10,992,000	22,606,000	8,895,000
6th February -	18,206,000	11,266,000	22,569,000	9,543,000
6th March -	18,600,000	11,535,000	22,792,000	10,015,000
3d April -	18,987,000	11,262,000	22,838,000	10,126,000
1st May - -	19,084,000	11,006,000	22,768,000	10,002,000
29th May -	19,018,000	10,786,000	22,648,000	9,806,000
26th June -	19,047,000	10,426,000	22,354,000	9,722,000
24th July -	19,286,000	10,424,000	22,601,000	9,749,000
21st August -	19,481,000	10,298,000	22,747,000	9,746,000
18th September	19,665,000	10,040,000	22,846,000	9,615,000
16th October -	19,359,000	9,327,000	22,015,000	9,437,000
16th November	18,900,000	8,949,000	21,171,000	9,339,000
13th December	18,469,000	9,033,000	20,707,000	9,362,000
1839.				
9th January -	18,201,000	10,315,000	21,680,000	9,336,000
5th February -	18,252,000	10,269,000	22,157,000	8,919,000
5th March -	18,298,000	9,950,000	22,767,000	8,106,000
2d April -	18,371,000	8,998,000	22,987,000	7,073,000
30th April -	18,350,000	8,107,000	23,112,000	6,023,000
20th May -	18,214,000	7,814,000	23,543,000	5,119,000
25th June -	18,101,000	7,567,000	23,934,000	4,344,000
23d July -	18,049,000	7,955,000	24,905,000	3,785,000
20th August -	17,969,000	8,029,000	25,588,000	3,265,000
17th September	17,960,000	7,781,000	25,936,000	2,816,000
15th October -	17,612,000	6,734,000	24,939,000	2,522,000
12th November	17,235,000	6,132,000	23,873,000	2,545,000
12th December	16,732,000	5,952,000	22,764,000	2,887,000
1840.				
7th January -	16,366,000	7,136,000	22,913,000	3,454,000

The opinions of the mercantile part of the public were strongly expressed, throug the medium of the newspapers and banking circulars, in favour of efforts to be made by the Bank to get rid of some part of their large stock of bullion. And the directors seem to have participated in these views; inasmuch as they were induced, after having reduced the rate of discount in February, 1838, from 5 to 4 per cent., to adopt the very anomalous proceeding of shipping bullion (gold, it was said) to the United States of America.

It was reported, at the time, that the amount to be shipped would reach 2,000,000*l.*; but, from what cause was not stated, the total sum so sent fell short of 1,000,000*l.* In point of amount, therefore, as the treasure of the Bank appears at that time to have been about 10,000,000*l.*, the transmission of a sum under 1,000,000*l.* would not, of itself, call for any special remark, but for two reasons. The one is, that it forms an additional instance of the impatience which, as exhibited on former occasions, the Bank seems to have felt whenever there has been an accumulation of treasure in its coffers, and of its resort to some unusual effort to get rid of it. The other, and more important purpose in here referring to the transaction, is to notice the motive assigned for a proceeding so unusual, namely, to afford to the United States Bank, and the other American banks which had suspended their cash payments, the means of accelerating their resumption of payments in specie, and thus to hasten also a revival of the trade with this country.*

* The measure was greatly applauded by the numerous persons on both sides the Atlantic who are of opinion that the forcing operations of banks are properly applicable to the direct purpose of promoting the commerce, manufactures, and agriculture of the country, by facility of advances; which must mean, on securities more slender, or at a rate of interest lower,

However desirable it might be that the American banks should fulfil their engagements to their creditors, by paying in specie, it was no part of the business of the Bank of England to hasten their doing so, nor was it for the real interests of the American public that the restoration of cash payments should be thus artificially accelerated; for, in proportion as the exertions of the banks for their resumption, by the reduction of their securities, or, in other words, by the contraction of their loans and discounts, was superseded by the extraneous assistance then afforded them, so was the ground for their future course less secure: in proportion as they found more facility, and less discredit, in getting over the effects of their previous overbanking, in so far would they be the less likely to be deterred from the repetition of the conduct which had brought them into that predicament. And, as to accelerating the revival of the trade between the United States and this country, and consequently the demand for our manufactures, such being professedly the ulterior purpose of this quixotic measure of the Bank of England, any proceeding on the part of that body, with such a view, is most earnestly and strenuously to be deprecated and reprobated.

The trade of this country requires no such fostering and forcing process, by operations of the Bank of England, or any other banks, in its behalf. An improvement, produced by such means, cannot be sound, and still less can the Bank which professes to hold out such artificial means and resources to trade be considered to be under salutary or safe regulation. It is neither more nor less than a system of officious interference, unbottomed on anything like correct

than, with a due regard to the interests of their proprietors and depositors, they would be justified in taking.

principle, and coming properly, therefore, under the designation of mere quackery.

The result, indeed, proved to be so; inasmuch as the United States Bank, had it not received the countenance and aid of the Bank of England, would not have been in a condition so soon to renew its reckless course, and would not, in all probability, have been enabled to aid and abet the southern and western banks in their preposterous attempts to obstruct artificially the legitimate operation of supply and demand in the article of cotton; an attempt which, in its failure, recoiled with especial force on the parties to it, and was also productive of injury to the commerce of this country, to favour which was the object of the Bank of England in aiding the American banks.

Excepting this eccentric operation of the Bank of England, in the early part of 1838, its movements, during the remainder of that year, were apparently under correct regulation; or perhaps, more properly speaking, the action of the public upon all the elements of the position of the Bank was so equally distributed, that, without any effort on the part of the directors, the bullion, although under a process of gradual reduction, preserved its due proportion to the liabilities, which underwent a reduction, in a nearly corresponding ratio.

By the following comparative statement, from the monthly Gazette returns of the quarterly averages, it will be seen that the state of the currency, as exhibited by those returns, from March, 1838, to January, 1839, varied little, if at all, from what it would have done if the issue of the Bank notes had been under separate management, and made to vary with the demand for gold.

	Circulation.	Deposits.	Liabilities.	Securities.	Bullion.	Assets.
April 3. 1838,	18,987,000	11,262,000	30,239,000	22,838,000	10,126,000	32,964,000
Jan. 9. 1839,	18,201,000	10,315,000	28,516,000	21,680,000	9,336,000	31,016,000
Decrease	786,000	947,000	1,723,000	1,158,000	790,000	1,948,000

According to this comparison, the circulation had, within a difference not worth noticing, of 4000*l.*, decreased in the exact proportion of the decrease of the bullion. The *proportion*, however, of bullion to the liabilities had been highest, and the amount of securities lowest, at the time of the return of the 21st December, 1838, when they stood thus, —

	£		£
Circulation -	18,469,000	Securities -	20,707,000
Deposits - -	9,033,000	Bullion - -	9,362,000
	27,502,000		30,069,000

According to the principle on which the actual amount in each month is computed from the three preceding averages, the securities were at their lowest point in November, 1838, when they are reckoned to have been about 20,300,000*l.* There is nothing, therefore, in the position of the Bank thus far that can, in any way, be considered to have been indicative of any excess in the circulation; meaning by the term excess such an enlargement of the issues beyond the due proportion to its bullion as to be in itself an originating cause of a depression of the exchanges, and of the consequent efflux of bullion. It is, accordingly, from this time, and from this state of the securities, that the question arises, how far the management, such as it has been found to be, was calculated to aggravate, and did aggravate, the tendency to an efflux of bullion: such efflux having been the proximate cause of the inconvenient pressure on the money market, which became necessary in order to counteract that drain. And also, how far the measures taken by the Bank to stop the drain were judiciously chosen.

The reduction which took place in the securities, to the comparatively low amount at which they stood in November, 1838, being so much below that at which they had ranged for some time before,

is accounted for by the circumstance that, while several of the securities upon which advances had been made to the Northern and Central Bank, and to the American houses in 1836 and 1837, must have been running off, there was no equivalent supply of fresh ones offering, because the market rate of interest had fallen below the rate charged by the Bank. When the reduction of the Bank rate of discount from 5 to 4 per cent. was announced, in February, 1838, the market rate had fallen on bills of the same description to 3½ per cent.; and, as the spring advanced, there was a further decline of about ½ per cent. The period when the market rate of interest seems to have been at its lowest point was in the early part of the summer of that year.

Henceforward there seems to have been a tendency to an advance in the rate of interest, although very slow; and until nearly the close of the year it did not reach the Bank rate. By that time, however, it became evident to those who paid any attention to the signs of the times, that events were in progress which should enjoin caution on the part of those whose business it was to regulate the circulation.

The circumstances which, as causes of a probable drain, strongly indicated, towards the close of 1838, the expediency, on the part of the Bank, of keeping a look out a-head, and of taking precautionary measures against the highly probable increasing demand for gold, have already been stated, under three separate heads.

These causes were manifesting themselves in combined operation towards the close of 1838, and presented signals, which could not be mistaken, of impending drain on the coffers of the Bank, requiring strong precautionary measures of counteraction. But the directors had before, upon principle, disclaimed to act upon anticipation; and

the interests of the proprietors were opposed to so low a state of their securities. Instead, therefore, of reducing them, or at least keeping them down, the Bank met the increasing demand for money (as a rising rate of interest is technically called) by increased facilities to borrowers; inasmuch as, in the periodical notice issued on the 29th of November, advances were offered till the 23d of January following, at 3½ per cent. per annum, not only upon bills of exchange, to which the former notices were confined, but on Exchequer bills, East India bonds, or other approved securities.

The market rate of interest having, by this time, become rather higher than the Bank rate, this notice of increased facility, so unaccountably timed, inevitably increased the amount of its securities, which, in the course of the following three months, were considerably enlarged. Notwithstanding this increase of the securities — notwithstanding the steady advance in the market rate of interest — notwithstanding the increasing manifestation of the progress of circumstances requiring counteraction by a reduction, which could now be effected only by means much more forcible and inconvenient than would have been requisite a few months sooner, — and above all, notwithstanding that there had been a diminution of upwards of two millions of treasure, the Bank, instead of taking warning, and retracing its steps, by a forcible reduction of its securities, actually, on the 28th of February, 1839, issued a notice offering advances until the 23d of April, and on similar securities, at the same low rates as by the notice of November preceding. And notwithstanding an advance which was still in progress in the market rate of interest, with a declining state of our foreign exchanges, and a consequent increasing drain on its treasure, such was the apparent utter unconsciousness, on the part of the Bank, of approaching

disturbance of the circulation, and still more, of circumstances threatening its stability, that not a single step appears to have been taken which had even the semblance of an attempt at precaution, until the 16th of May following, when a notice was issued raising the rate of discount to 5 per cent. The effects of this total disregard of the indications, which prescribed a course totally opposed to that which was pursued, are exhibited in the following comparative view of the position of the Bank.

	Circulation.	Deposits.	Liabilities.	Securities.	Bullion.	Assets.
Dec. 21. 1838,	18,469,000	9,033,000	27,502,000	20,707,000	9,362,000	30,069,000
May 28. 1839,	18,214,000	7,814,000	26,028,000	23,543,000	5,119,000	28,662,000

Here we have the circulation kept up within 250,000*l.* of what it had been at the close of 1838, while the securities had been increased by upwards of 2,800,000*l.*, and the bullion diminished by upwards of 4,000,000*l.*

But, in fact, if the amounts of the securities and of the bullion were taken according to computation of what they stood at in the months instead of the quarterly averages, the contrast would be still greater, inasmuch as it would appear that the securities were increased by upwards of 3,000,000*l.*, while the bullion had been reduced by upwards of 5,000,000*l.*

It is not easy to conceive how it happened that the Bank should have suffered such a state of things to take place, and to be in progress for six months, with every appearance of a feeling of perfect security. Such apathy under the increase of its securities, while the bullion was fast flowing out, is the more remarkable, since it was, in a two-fold point of view, at variance with what has been understood to be the system by which the Bank professed to be regulated, according to the explanations of that system, in the evidence on the Bank charter in 1832. For it was not only stated that the se-

curities ought not to vary materially in amount, but that it was of importance that the Bank rate of discount should be kept generally above the market rate, *except* in periods of discredit or scarcity of money.

The exception, in my opinion, vitiates the rule; as I shall by and by have occasion to remark; but that is not here the question: because from November, 1838, to May, 1839, there was neither commercial discredit nor any such scarcity of money as to justify, even according to that exception, an increase of securities, by keeping the Bank rate of discount under the market rate, as was the case during the whole of that time. Indeed there can be no stronger evidence of the fact of the Bank rate having been below the market rate, than the very increase of the securities, which, there is reason to believe, were wholly commercial. When at length the continued drain of bullion seems to have roused the directors to a sense of the necessity of adopting some precautionary measures; and when, accordingly, on the 16th of May last, they raised the rate of discount to 5 per cent., this advance which, if it had taken place a few months sooner, might have had some influence in keeping down the securities, had now no such effect; for the obvious reason that the market rate had advanced still more. So unconscious were the directors apparently of the utter inadequacy of this measure, so hesitatingly and tardily applied, that, on the 30th of May, being the usual period for shutting the books for the dividends, a notice was issued from the Bank offering advances at 5 per cent. till the 23d of July, on the same general description of securities as in the two preceding notices.

There cannot be a better commentary on the shortsightedness which then prevailed in the regulation of the currency than that, within three weeks after the issue of this notice, and while more than

one month was unelapsed of the period to which the operation of it was announced to extend, it was found that the demand thence arising for advances on securities was such as must *increase* the circulation exactly at the time when, from the state of the exchanges, there was an imperative call, then become too urgent to be mistaken, for a decided *reduction* of it. The following notices were accordingly issued: —

No. 1. — "At a Court of Directors, held 20th "June, 1839, Resolved, that the rate of interest "on bills of exchange and notes discounted at the "Bank of England be $5\frac{1}{2}$ per cent., from this "day."

No. 2. — "The Governor and Company of the "Bank of England do hereby give notice, that all "further advances which may be made, in pur- "suance of the order of the Court of the 30th "ult., will be at the rate of $5\frac{1}{2}$ per cent., from this "day, and that such advances will be made on "bills of exchange only."

A considerable sensation in the money market was excited by these notices, inasmuch as by the first of them the charm was broken of the supposed impassable line of 5 per cent.; and by the second there was an *exclusion* of securities, other than bills of exchange, such other securities having been *included* in the notice of the 30th of May.

This exclusion had the immediate effect of reducing the price of Exchequer bills, and, indeed, of the public funds generally, by the uncertainty which the holders of them were suddenly thrown into, as to the power of raising money upon them in case of emergency; the resource of application to the Bank being thus cut off. Without, however, entering into the question of the wisdom of these measures, I mention them here as showing how unaware the directors must have been of the force of the causes operating as a drain on their trea-

sure, which was rapidly tending to exhaustion, to have been obliged thus suddenly to adopt a measure so stultifying of that which they had announced only three weeks before. As notwithstanding the unusual steps thus haltingly taken, the drain upon the coffers of the Bank outran them, a measure was announced on the 13th of July, which, if it had been sincerely intended, and consistently carried into operation, was best calculated for the effect proposed.

The measure here alluded to was a notice issued by the Bank of its being ready to receive tenders, on the 17th of July, for the purchase of the annuities known familiarly as the dead weight, to be made either in money or in the 3 or 3½ per cent. stocks. There was a strong suspicion, on the part of the public, that the Bank was not sincere in this announcement of an intention to part with its dead weight; and that it only made the demonstration with a view to make it appear that it was doing all in its power to reduce the circulation, while, in fact, it was not disposed to make any real sacrifice for the purpose. The event has given countenance to that suspicion; for when the time arrived for making the tenders, it became manifest that so high a minimum price had been set by the Bank for these annuities as to afford no chance that the biddings, for any amount worth mentioning, could come up to it. Accordingly nothing was done. The announcement proved to be, as seems to have been intended, a mere brutum fulmen; and here a grave charge rests upon the management.

Instead of the plain straightforward course of converting the dead weight securities at a small abatement from the highest nominal value, the directors resorted to the discreditable expedient of applying for assistance to a set of Paris bankers, who, after much hesitation, and much humiliating

inquiry, consented to grant it.* The assistance thus resorted to, and the accommodation granted, consisted of credits by twelve of the leading firms in Paris to the extent of 50,000,000 of francs, or 2,000,000*l.* sterling, to be drawn against for account of the Bank of England.

If, after selling a portion of their dead weight, and whatever other convertible public securities they held, with such accompanying restriction upon discounts as might be rendered necessary, in order that the securities should not increase through that channel in proportion as the public securities were diminished, the contraction of the circulation had been still found, although this is highly improbable, insufficient to stop the drain; then, and not till then, as a last resource, in the clear alternative of a suspension of cash payments, which would be the greater evil, would a resort to such an arrangement as that with the Paris bankers have been justifiable.

But this extraneous and extraordinary resource could not, of itself, be relied upon for turning the exchanges, which still were such, as with short intervals of rallying, continued to favour the efflux of bullion. The Bank, therefore, with a view to keep down the applications for discounts, which were still increasing, and thus counteracting its endeavours to contract the circulation, raised, by a notice dated 1st of August, 1838, the rate of discount to 6 per cent.

The lowest amount of the treasure of the Bank was, according to the Gazette returns, on the average of the quarter ending 15th October, when it appeared to be 2,525,000*l.*; but the lowest actual amount was computed to have been about 2,300,000*l.*

There was no further advance of the Bank rate

* This arrangement transpired about the 24th of July.

of discount beyond 6 per cent., which seems to have been effectual in keeping a strong pressure on the money market; and this, with the aid of drafts against the credit of the Paris bankers, appears to have been sufficient, with the quantity of bullion before exported, to stop the further efflux of bullion after the middle of September.

It is, doubtless, a great point gained, and is justly a matter of congratulation for the public, that the imminent danger of suspension of cash payments has been passed; and it must, in fairness, be admitted that, as I have already shown, the circumstances leading to the recent difficulty were not, in their origin, attributable to any undue enlargement of the Bank issues. But the escape has been a narrow one, and attended by circumstances of almost national humiliation in the application of the Bank of England for assistance from France. Credit, indeed, is taken by the Bank of England, for having, although at the risk of suspension, preserved the commerce of the country from the injury to it which might have resulted from earlier and more effectual measures for the contraction of the circulation. But there is every reason to believe that earlier measures for contraction, on the part of the Bank, would have obviated the necessity for more stringent ones later, and that the commerce of the country would now be in a more satisfactory position if the proper legitimate measures for regulating the exchanges had been sooner adopted.

There has been a degree of uncertainty and well-founded apprehension, under the too tardily adopted measures of precaution, which need not, and probably would not, have existed, if the Bank, upon the first indication of a decided demand upon its coffers, had taken measures for reducing the securities, or, at any rate, keeping them down instead of enlarging them as it did.

The Bank of England cannot, in the recent instance of pressure, reasonably charge the country banks with having unduly extended their part of the circulation, so as to counteract the measures of the Bank of England for correcting the exchanges; for it appears by the Gazette returns, that, in the quarter ending 29th September, 1839, there was a reduction of their issues of nearly 1,200,000*l.*, while the reduction of the Bank of England issues, in the same interval, was only about 300,000*l.*

And there is another important consideration which renders the state of jeopardy into which the Bank had fallen still more distinctly referable to omission of early precaution; namely, that the whole of the drain has taken place through the medium of the exchanges, without the slightest *extra* internal demand, whether from political causes, as in 1831–2, or from commercial panic and discredit, as in 1825, or more partially by a demand for Ireland as in 1836. On the contrary, instead of a demand for gold from the country, there was, as I understood, through a great part of the summer a tendency to an influx of gold from the country to the London bankers. More than usual, too, it was said, of gold was paid into the bankers' hands by the smaller traders in London, in discharge of the bills on them; and my impression, from what I collected at the time, was that the London bankers paid more gold into the Bank than for internal purposes they took out of it. If so, it should seem that a part of the foreign demand was supplied from the internal circulation of gold, thus proving practically one of the advantages of having a considerable portion of gold as currency, and at the same time leading to the inference that the demand for exportation has been greater than appears by the mere difference in the stock of bullion, as stated in the Gazette returns.

Now, according to the system professed on the part of the Bank, in the examination before the committee on the charter, in 1832, it was stated that although against the effects of political discredit and internal demand, the Bank could not be perfectly secure, *the foreign exchanges could always be rectified without a crisis* * : by crisis being understood, as I conceive, a near approach to, but not actual suspension.

How then has it happened that, without wars or revolutions abroad, and without commercial discredit or political convulsion or panic leading to an internal demand for gold, the Bank has not so regulated its issues as to rectify the exchanges which, according to the system propounded in 1832, it would be able to do under any circumstances but those of political discredit or internal panic?

It is quite clear that no system at all has been followed, and, what is more, no system has existed. The principle which is supposed to have been propounded by the directors in 1832, and which has been reasoned upon in the controversies to which the partial disturbance of the circulation gave rise in 1836–7, will be found on examination of the terms in which it was announced and explained to be nothing like an intelligible principle. The exceptions and reservations overlay the rule, and leave the management, such as it has been, clear of the charge of inconsistency, simply, because no consistent principle has been laid down for its guidance.

The rule or principle which was understood to be laid down by the evidence of the Bank directors was, that their securities should be kept at a nearly uniform amount, and their bullion at about one third of their liabilities.

* Evidence of J. H. Palmer, Esq., question and answer 673.

Such is the general impression as to the rule supposed to be laid down; but, upon a nearer view of that evidence, it will not be found to bear out that impression. With regard to the supposed rule of keeping the securities even, there is nothing in the evidence from which it can be inferred that it is considered by the Bank as its duty so to keep them. All that appears about the proportion of one third of bullion to the liabilities, is, that when that proportion exists, it is considered to be a full currency, and a desirable state of it; but not a syllable is said of the necessity or expediency of any effort for preserving it, still less for recovering that proportion.

It appears, moreover, upon reference to that evidence, that the directors, conceiving that among the duties of the Bank of England is that of accommodating the commerce and supporting the credit of the country, consider themselves bound, whenever there is a pressure for money, to come in aid of the mercantile interests. Thus it occurs that, as soon as anything like a pressure for money, or simply a rise of the market rate of interest takes place beyond what happens to be the Bank rate, and which pressure for money, if allowed to take its course, is calculated to correct the exchanges, the Bank, upon the plea of accommodation to the commerce of the country, presents a source, through the medium of discounts, which effectually counteracts that process. If Exchequer bills, under such circumstances, are sold by the Bank, the reduction, thus effected, of the securities, on one hand, is compensated, and sometimes more than counterbalanced, on the other hand, by an increase of discounts; and there is hence an increase of securities at the Bank, precisely when there ought to be a diminution of them. This assumption of a duty, on the part of the Bank, adds greatly to the difficulty and delicacy of its position.

It is difficult enough to reconcile, in all cases

the interests of the proprietors with the interests of the public; but when, in addition to these two *sometimes* conflicting interests, the claims of merchants seeking loans or discounts are allowed as a matter of right, it is no wonder that no consistent rule is followed; or rather, I might say, that there is some consistency in always increasing the securities when, according to the system professed, they ought to be reduced. Indeed, it is obvious that this must generally, if not always, be the case, inasmuch as, among the three branches of duty which the Bank thus has to perform, the increased applications for loan or discount are always favourable to the interests of the proprietors. The applicants, therefore, for discount, being supposed to represent the commerce of the country, are placed in the fore ground as opposed to the reduction of securities, or, in other words, to an effectual contraction of the circulation, when the interests of the public, in the maintenance of the convertibility of the paper, require it.

In order to avoid the possibility of my mis-stating the rule, and the exceptions and qualifications, I will quote those parts of Mr. Horsley Palmer's evidence that relate to the points in question, constituting the whole of the grounds on which have proceeded the controversies that have more or less occupied the attention of the public respecting the conduct of the Bank during the last four years. In the extracts from, and comments upon, that evidence, which I am about to make, I wish it to be distinctly understood that I do not, in the slightest degree, propose to detract from the justly merited encomiums which have been bestowed on that evidence, as containing an admirable and luminous explanation of the working of the system of the Bank in all its parts. It is only on one or two points of principle that I venture to dissent from the views stated in that evidence, as they are of great importance in

the question of management. Some years having elapsed since the evidence was given, every allowance is to be made for possible changes or modifications of opinion from subsequent experience. But consideration for the commerce of the country has, avowedly, on the part of the Bank, so much influenced its proceedings, in its very irregular management of the currency within the last four years, that, whether Mr. Palmer adheres or not to the doctrine expounded by him in his evidence, it must be looked upon as having been adopted by the Bank.

The first question asked relating to the principle of regulation was in the following terms (the italics are not in the original, and are intended to mark the passages which appear to me to be deserving of special notice): —

"72. What is the principle by which, in ordinary "times, the Bank is guided in the regulation of its "issues?—Answer. The principle, with reference "to the period of a full currency, and consequently, "a par of exchange, by which the Bank is guided "in the regulation of its issues (excepting under "special circumstances) is, to invest and retain in "securities bearing interest, a given proportion of "the deposits and the value received for the notes "in circulation; the remainder being held in coin "and bullion: the proportions which seem to be "*desirable under existing circumstances* may be "stated at about two thirds in securities, and one "third in bullion: the circulation of the country, "so far as the same may depend on the Bank, "*being subsequently regulated by the action of the* "*foreign exchanges.*"

Mr. Palmer, in a subsequent answer (293), said, "I wish the committee to understand, that when I "used the terms two thirds and one third, I meant "to allude to the period of a full currency, prior "to the commencement of a demand; the pro-

"gress of a demand reduces the proportion; *but* "*when the demand ceases, and the exchanges reas-* "*sume a favourable character*, then we are in a "progressive state to reassume our proportions."

Hence it appears, that when the proportions are reduced by a demand for bullion, there is no effort on the part of the Bank to restore those proportions, trusting to a spontaneous turn of the exchanges for a return of the bullion.

A rule or principle like this, applied only to ordinary times, and guarded by the reservations which I have marked with italics, amounts, it will be observed, to little or nothing. The witness, however, after explaining that the liabilities included the deposits, is further asked,—

"78. According to your description of the prin- "ciple upon which the affairs of the Bank are "conducted, do not the directors of the Bank of "England possess the power of regulating the "whole circulation of the country?—Answer. "The Bank is very desirous not to exercise any "power, but to leave the public to use the power "which they possess of returning bank paper for "bullion.

"79. Would the exchanges be corrected if the "amount of currency was left wholly in the hands "of the public?—Answer. *They have been prin-* "*cipally corrected under that management.*

"80. Is the Bank exposed to no inconvenience "by waiting to have the correction applied in this "manner, in preference to itself interfering, by "that power, to diminish the circulation in case of "a fall of the exchange?—Answer.—No; pro- "vided they are *adequately supplied with bullion* "when the exchanges are at par, and which pro- "portion I have stated to be about one third.

"81. Does not the Bank, if it thinks proper, "possess the power of extending the currency, or "of diminishing it, without waiting for the inter-

"ference of the public?—Answer. It has the "power.

"82. Would the Bank forcibly contract their "issues by a sale of securities during an unfavour-"able course of exchange with foreign countries; "and would they forcibly extend their issues by "the purchase of securities, when the exchange "was favourable?—Answer. I think not, *except "under special circumstances.*

"83. You mean to say that the Bank would "not forcibly do that, but that it would leave it to "the public to act upon the Bank, and produce "the effect at which it would arrive?—Answer. "I do.

"It appears, by the accounts before the com-"mittee, that, for the four last years (1827 to "1832) the amount of securities varied very little; "do you consider it important in the management "to keep the securities at nearly the same amount? "—Answer. *As nearly as the same can be ma-"naged.*"

The fact noticed in the last question, namely, that the securities had varied little during the four years preceding May, 1832, is material; because a reference to it naturally led to the supposition that the comparative equableness of the amount had been the result of management, and had, according to answer 79, *corrected the foreign exchanges,* under considerable variations in the amount of bullion: and this impression added great weight to the announcement of the principle by which it was supposed to be effected. But in truth, the Bank was nearly passive as to all the elements of its position *, in those four years, with the

* The expression of *elements of the position* of the Bank is, I am aware, open to criticism as being an unusual application of the terms. My excuse for the employment of them is, that I cannot readily find others which so compendiously and clearly

exception of some remittances of silver to Paris in exchange for gold. The securities were preserved from great variation by two causes: 1st, the very large stock of bullion before the drain commenced. 2d, The market rate of interest never rose above the Bank rate of 4 per cent.* The applications, therefore, for discount were on a restricted scale, and the conflicting duty imposed upon itself by the Bank of accommodating the commerce of the country did not come into play.

I have before† remarked at some length upon the state of the circulation in those four years, and upon the apparently satisfactory working of the supposed rule.

It appears by the following answer, that the term "*regulation* of issues, according to the foreign "exchanges," ought rather to have been that, in such cases the foreign exchanges *regulate the issues;* but, even in those cases, there must be an implied assumption that the securities are unvaried.

"122. How do you regulate your issues ac-"cording to the foreign exchanges?—Answer.

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convey the meaning which I here attach to them; a meaning which must often be referred to. By the position of the Bank, I mean its situation or condition with reference to the four circumstances entering into the view of it as presented to the public by the monthly returns, namely; the circulation and the deposits on the one side, and the securities and the bullion on the other. Those four circumstances I designate as the elements, and the state of the Bank, as composed of those elements, I consider as its position. With this explanation, it will be found, that although this use of the terms is somewhat strained, it has the redeeming quality of being concise and distinct.

* Mr. Gurney, in his evidence, *Bank Charter Report*, 1832. —"The value (interest) of money was 2½ per cent. in London up to the end of 1830; then it rather suddenly jumped up to 4 per cent.; and it has ranged between 3 per cent., and 4 per cent. ever since, rather tending downwards to 3 per cent."

† Vol. II. pp. 220—222.

" By the notes being returned for gold or silver " for export.

" 123. Do you regulate them from the returns " you have of what the foreign exchanges are, or " from the action which takes place upon the " Bank? — Answer. The action which takes " place upon the Bank.

" 124. Do you find that the alteration in the " action upon the Bank is simultaneous with an " alteration of the rate of the foreign exchanges; " and that it is the case invariably? — Answer. " Certainly."

Then comes a question, the answer to which is worthy of notice.

" 125. Do you not sometimes anticipate the " actual action upon the Bank, by the demand for " gold, when you see there is a tendency in the " foreign exchanges to produce that action? — " Answer. No; we wait for the actual demand."

The disclaimer, therefore, of the directors, in 1836, of being bound to anticipate and consequently to reduce, instead of extending, the securities, from a view of circumstances which they already foresaw must lead to a considerable demand for gold, was perfectly consistent with the practice here explained.

The committee, after several intermediate questions on other points, very naturally come to inquire how the Bank manages to keep its securities nearly even.

" 148. You stated that the principle was to " keep the amount of securities in your hands " nearly the same; do you, in order to effect " that, restrict your discounts upon the bills of " private individuals? — Answer. No.

" 149. Does it ever occur that the amount of " private bills accumulates beyond its average " amount? — Answer. Yes.

" 150. In such case, how do you keep the

" whole amount of your securities at the same " amount?—Answer. By a sale of part of the " government securities.

" 151. Then, when you said that you have " never forcibly contracted the amount of cur- " rency, you do not mean to exclude your selling " securities in the market, in case the securities " accumulate in your hands?—Answer. If there " be a demand for an increase of the issues upon " commercial bills, the Bank find the means of " supplying the demand by a sale of part of their " government securities*, thereby *providing that* " *the amount of their securities be not increased,* " *but merely their character changed.*"

This last answer is the only one which is not so guarded by qualifications as to convey nothing like a distinct rule. Here it is clearly admitted, as the duty of the Bank, in regulating its issues, with a view to correcting the exchanges, to sell government securities corresponding in amount with the increase through the medium of commercial bills; and it remains with the Bank to explain why this was not done, as there is no question that the resort to such sales, in sufficient amount, accompanied by an advance in its rate of discount, would have superseded the unfortunate necessity of recourse to the humiliating expedient of assistance from the Paris bankers.

The conduct, indeed, of the Bank in July last, with reference to the dead weight, is quite decisive of glaring inconsistency with this clearly laid down rule; and never was there occasion more urgent for adhering to it. For how did the matter stand? By the public notice from the Bank, inviting tenders for the dead weight, there is the most unequivocal proof that, in the

* In answer to some previous questions, Mr. Palmer had stated that the dead weight annuities were marketable securities.

opinion of the directors, a sale of a part of those securities, sufficient to meet the increase of commercial bills, was desirable for a contraction of the currency, with a view to abate or stop the rapid drain on their coffers. If there had been no offers, or, in other words, if those securities had proved upon that trial not to be marketable, the inability to sell would have been an available plea. Or, even if the terms offered, or likely to be obtained, had been so ruinously low as to have entailed a heavy loss upon the terms on which the annuities had been purchased from the public, there might have been something like an excuse, although not a valid one, for hesitation in effecting the sale.

But there was no such excuse. The securities were ascertained to be perfectly marketable on terms which left a large profit on the purchase, and it was only a question of a quarter, or at the utmost, of half a year's purchase, that stood in the way of realising a sufficient amount. The Bank is, therefore, reduced to this dilemma; the conversion of a part of these securities was, or was not, desirable with a view to the due regulation of the currency. If it was not desirable for that purpose, why announce an intention of sale, for there could be no other purpose in it? If it was desirable for the public interest, with reference to the state of the currency, how can the difference of a quarter or half year's purchase, a difference which could not in the slightest degree affect the public interest, be urged as a plea for foregoing the sale? It is hard, indeed, to believe that, on this most important occasion, the interests of the public were not sacrificed to the supposed interests of the proprietors; I say supposed, because it may well be doubted whether the alternative resorted to, of assistance from France, will not, in all its consequences, prove more in-

jurious to the interests of the proprietors than the sale of even a considerable portion of the dead weight.

Section 3.—*Doctrine of the supposed Duty of the Bank of England to accommodate the Trade, and to support the commercial Credit of the Country.*

Previously to giving the questions and answers which relate to the supposed duty of the Bank to extend its discounts in periods of pressure on the money market, it may be desirable to point out an ambiguity in the use of the term *accommodation*, as applied to banking.

Its original and legitimate signification applies simply to the *convenience* of banks as places of safe deposit for money, and for the convenience of making payments by cheques; also for the transmission of sums for account of its depositors to different parts; and, in some cases, for finding suitable investments. The safety and facility with which the banks answer the several purposes of convenience, required by their customers, form the measure of the *accommodation* for which they are instituted and supported: and that is the only sort of accommodation which they are bound to afford *as a duty*.

The terms upon which the accommodation is afforded are commonly determined by competition, and consist, for the most part, in the power which the banks have, by consent or custom, of employing on discount or loan such part of the monies lodged with them as, upon an average, or according to stipulation, is not likely to be called for by the depositors. It is, in these cases, essential to the bankers, as remuneration for their trouble, and the expenses of their establishment, to lend the sur-

plus funds on available securities. It is their *interest* to lend as much as they can venture to do with safety; but it is no part of their *duty*, and it is only a part of their functions, because they could not otherwise so well accommodate their depositors.

With regard to banks which issue promissory notes, the privilege is granted them by the state for the purpose of having a more convenient circulation than that of gold, and equally safe, for payments of *5l.* and upwards; and the manner in which the banks obtain a profit on the issue, is through loans or discounts. They lend for the interest to be derived, and not as a part of their duty.*

It is common, when a person applies for discount or loan, to speak of his being *accommodated* with the advance; and the facility of borrowing is no doubt an accommodation to those who have occasion to avail themselves of their securities or credit, for the purpose of raising money upon them. Hence a vague notion prevails, that when the accommodation of banking is talked of, it is supposed to be an institution for the purpose of enabling persons to borrow†, instead of being merely for

* Bankers may, indeed, enter into stipulations, or allow it to be understood, with persons who give them their business as depositors, that a certain amount of advances, either on personal security or by the way of discount, will be granted to such depositors; and so far it may be of the nature of a duty towards such parties. But prudent bankers take care not to commit themselves to stipulations of that kind, so as to interfere with the *paramount duty* of fulfilling their own engagements. And at any rate, this is widely different from the notion that banks are institutions for the benefit of borrowers.

† There are striking instances of this notion in the evidence before the committee on the Bank of Ireland charter, some of the witnesses examined making it a matter of serious charge against that bank, that it would not always give sufficient accommodation, or rather the accommodation required, in the way of discount for other banks; while it may be observed, by the way, that it is rather questionable whether it is quite right or

the purpose of affording safe custody, and more convenient channels for the employment of deposits, than the owners could conveniently find for themselves; or of administering to the public a convenient and safe substitution of paper money for coin.

The effect of this vague notion of accommodation is, that there seems to be a claim of right, or something very like it, on the part of merchants and traders for loans from bankers, with an implied assumption that such applications should be complied with, in cases where the wants of the applicants may indeed be urgent, but where also the bankers have not the money to lend without endangering their ability to fulfil their engagements — their primary and paramount duty to their depositors, and the holders of their notes. It is commonly said on such occasions, that the banks, and more especially the Bank of England, are bound to make an effort, and depart from their usual course of prudence, for what, in the phraseology of this doctrine, is called the support of commercial credit.

In the following extracts, the judiciousness of the answers, *saving only the exceptions of discredit*, contrasts strongly with the glaring misconception which the questions involve of the object of discounts in the business of banking.

"173. Do you not hold that the discount of "private paper is one of the worst means which "the Bank, as a bank of issue, can adopt for re- "gulating its notes?—Yes; provided they are "adequately supplied with other marketable se- "curities.

"174. Upon what grounds do you form that "opinion?—Because *such a system materially in-*

creditable that one bank should apply to another bank for discount at all, except under peculiar circumstances, which might carry the excuse for such a course along with them.

" *terferes with the action of the private bankers of* " *London;* and further, it tends in my opinion *to* " *that extension of the circulation which might prove* " *prejudicial to the Bank.*

" 175. Then your answer applies only to a state " in which discounts can be easily obtained from " private bankers?—It applies to those periods.

" 176. Would it not have a *considerable effect* " *upon the commerce of the country,* if there were a " scarcity of cash for discount in the market, and " the Bank of England did not come in to supply " that deficiency?—I know no scarcity, as affecting " the circulation of the Bank of England except " discredit, and such as may arise out of the foreign " demand for bullion in times of an unfavourable " exchange.

" 177. In case of *a deficiency of capital for carry-* " *ing on the concerns of the country,* and that it can- " not be procured from private bankers or brokers, " would not *the aid of the Bank of England, in* " *discounting bills, be very advantageous to the* " *country?*—I do not know what is meant by a " deficiency of capital as respects the Bank. *In a* " *time of discredit,* it is extremely desirable that the " Bank should grant *the requisite aid to the public* " *by an increased issue of their notes;* and there " are times when the Bank may afford considerable " facilities to the commercial interests through dis- " counts, by changing a part of their Exchequer " bills into securities of the former character.

" 178. Then you think that the Bank of England " should be a bank of discount only in cases of " emergency?—I think so, with the exceptions " above referred to.

" 179. Is not the *accommodation of discount to* " *the commerce of the country* one of the main ob- " jects for which the Bank has ever been instituted, " *and for which all banks are instituted?*—As an " exclusive bank of issue in the capital, it ap- " pears to me that it cannot beneficially conduct

"a discount account to any great extent with "individuals, except in times of discredit. *When "the circulation is full, a competition with the "bankers would, in all probability, lead to excess, "in addition to other difficulties which would occur "in the attempt, on the part of the Bank of England, "to regulate their issues through that channel.*"

There cannot be a more striking commentary than the concluding sentence of this last answer, on the advances by the Bank to the money-brokers in the autumn and winter of 1835-6. The circulation was then *full*, and the competition with the bankers, by this use of the extra deposits, as they were called, led to excess, not in the issues of bank notes, but in the extension of credit; and thence the difficulties which occurred in the attempt on the part of the Bank to regulate their issues *through that channel*, namely, of the discount market.

It is impossible to convey in clearer terms than in the following answers, the legitimate functions of the Bank of England, and in the questions, the doctrine of the ultra currency theory.

"181. What do you consider as the principal "function which it is the duty of the Bank to per- "form?—Answer. To furnish the paper money "with which the public act around them, and to "be a place of safe deposit for the public money, "or for the money of individuals who prefer a "public body like the Bank to private bankers.

"182. Are not those functions the functions of "a government rather than a private company?— "Answer. That is for the government to deter- "mine.

"183. Then the benefit conferred is merely the "substitution of paper money in the place of specie, "and not from *accommodation to the industrious "classes.*—Answer. I think the Bank cannot "satisfactorily offer that accommodation while

"their circulation is so employed by other estab-
"lishments.

"184. What establishments do you allude to?
"—Answer. The bankers of London and the
"country.

"193. Do not you think that the Bank of Eng-
"land would have very little answered the purposes
"of its establishment, *if it had not been prepared*
"*to give circulation to the commerce of the country*
"*by means of those discounts?*—Answer. I hold
"it to be impossible that the Bank *can ever with*
"*any propriety issue upon discounts below the*
"*market rate.*"

Then, however, comes a question, the answer to which conveys the assumption on the part of the Bank to consider as one of its functions that of upholding the credit of the country.

"198. You do not mean to say that one of the
"objects of the Bank of England is not to afford
"accommodation to the commercial classes, but
"what you mean to say is, that you do not con-
"sider it advisable that the Bank should found
"their issue upon commercial discounts, that that
"is a bad means of establishing the issue; but that,
"under peculiar circumstances of pressure, the
"Bank may come forward and assist most mate-
"rially by discounting private paper?—Answer.
"That is precisely my view. The Bank of England
"is required to provide a requisite supply of paper
"money for the average circulation of the sphere
"on which it acts, and to uphold public and pri-
"vate credit when called upon. When commer-
"cial credit is affected, it is in such times that the
"credit of a great body like the Bank of England
"is available, and has the power to uphold the
"credit of the country."

This self-imposed duty of the Bank to uphold the credit of the country would, in my opinion, be found, under many conceivable circumstances,

to be incompatible with the maintenance of its own credit, that is, with the fulfilment of its own engagements to pay its notes in coin.

Mr. Palmer, in a subsequent examination, gave the following explanation of the main points of the principle which he had wished to convey in his former evidence.

"477. In answer to a question by the committee, "you are supposed to have stated it as your opinion "that the Bank of England ought to confine itself "to public transactions and the management of the "currency of the country, and not to interfere with "the general commercial discounts in the metro- "polis: is that your opinion, or do you wish to give "any explanation upon that answer. — Answer. "With reference to the answers which I have "given in the former examination, I am appre- "hensive of having been misunderstood with re- "spect to the opinion I entertain of the functions "of the Bank in London, as a bank for commer- "cial discounts; my intention was to impress upon "the committee an opinion, that in ordinary times, "the leading functions of the Bank of England "have been to furnish, upon a stated principle, an "adequate supply of paper money convertible into "coin and bullion upon demand, and to act as a "bank for safe deposit of public and private money; "and in so acting, that it is not deemed to be de- "sirable to attempt to regulate the amount of issues "of the Bank in London through commercial dis- "counts, but that there are occasions and circum- "stances when the functions of the Bank, as a bank "for commercial discounts in the capital, have "been, and ever must be, of the first importance to "the country. *The reasons which appear to me to* "*exist against the regulation of the amount of issues* "*through commercial discounts in London arise from* "*the magnitude of the deposits in the possession of* "*the bankers of London and other individuals seek-*

" *ing employment with which the Bank ought not,* " *in my opinion, to interfere.* The Bank fixing a " public rate of interest, at which it may be willing " to discount all approved bills of a given descrip- " tion, and being the only body issuing money *ad* " *libitum*, within the sphere of the circulation of " such bills, thereby fixes the maximum of the rate " of interest during the existence of such notice, " and consequently, all persons having money " already in existence to employ, must necessarily " offer to lend it under the Bank's public rate, ex- " cept in times of actual scarcity or deficiency of " money currency. If the Bank were required to " hold no other securities than commercial bills, " they would be under the necessity of acting in " common with all other parties, viz., by competi- " tion in the purchase of bills of exchange at the " existing market rate of interest. *It is that com-* " *petition with private bankers and individuals in* " *London which seems to me to be so objection-* " *able;* and if the plan hitherto acted upon answers " the public objects, I can see no benefit in a " change. In order to place that part of my " opinion clearly before the committee, which has " reference to the period when the action of the " Bank, as a bank for commercial discounts in " London, is one of the greatest public importance, " I beg to state that those functions of the Bank " are exhibited when a scarcity of money, or dis- " credit, exists in the London commercial money " market. The market rate of interest will then " advance to that previously fixed by the Bank, as " their public rate for commercial bills, which will " occasion such bills to be immediately sent to the " Bank for discount. The Bank *then* becomes the " *main support of the commerce of the country.* " A material difficulty exists, under the present " system, of affording, during the period of a " scarcity of money, that quantity of issue which

"the commerce of the country might in such time "require, viz. the limitation by law of the rate of "interest to 5 per cent. per annum; it being evident "that, in the event of the foreign exchanges being "adverse, the Bank might not only be under the "necessity of raising the rate of interest to that "*maximum*, but afterwards, as the only resource "left, *be compelled to limit the quantity or description of bills to be tendered for discount; either of which last measures would be equally detrimental to the commerce of the country*."

Here is the same assumption on the part of the Bank of a duty *to support the commerce of the country*. There was, indeed, so far a reason for it under the circumstances at the time when this evidence was given, that the usury law then existed in all its rigour and impolicy. Still the opinion is expressed in the foregoing evidence, that limiting the quantity or description of bills to be tendered for discount would be detrimental to the commerce of the country.

This doctrine is specious and popular, and the motives of the directors, in being guided by it, may be praiseworthy, but it is essentially unsound and unsafe; and as long as it is entertained and acted upon, *at least without a very much larger amount of bullion than has hitherto been retained*, there can be no consistency in the regulation of the issues, nor can there be any security against a frequent recurrence of the danger of suspension of cash payments.

The commerce of the country is, happily, of such vigorous growth, both in its root and branches, as not to require for its protection, from the adverse contingencies inseparable from all trade, the special protection of the Bank of England; the prospect of protection so held out being neither more nor less than a resource against the effects of overtrading.

Now in all cases of overtrading, the parties, as they took the chance of gain on capital beyond their own, are bound to abide the inconvenience, or loss, incidental to disappointment in the continued use of borrowed capital, after the expiration of the time for which it was lent. An advance in the rate of discount is, doubtless, disadvantageous, being either a deduction from profit, or an aggravation of loss to those merchants and traders who are obliged to borrow (for discounting is a form of borrowing) when there is an advance in the rate of interest; but, on the other hand, there is a corresponding advantage on a fall in the rate of discount, and this is among the inevitable elements of uncertainty attending all engagements for future payment, in cases in which the means of discharging pecuniary engagements involve a necessity for the conversion of securities.*

The case of the increased issues of the Bank, at the close of 1825, when its treasure was reduced to the lowest ebb, is commonly adduced as an instance of beneficial interference in support of credit; such enlarged issue being at decided variance from the principle which enjoins contraction of paper in proportion to the demand for bullion. The circumstances of that case were so peculiar, the impending and paramount evil of suspension was so imminent, that resort to some *desperate* remedy might be considered to be justifiable. And as the foreign demand for gold had ceased, and the internal demand had arisen chiefly from the discredit of the country circulation, there were reasonable grounds for anticipating a degree of benefit which might be

* As far as relates to our foreign commerce, the utmost probable fluctuations of the rate of interest are of very inferior importance, and a source of much less uncertainty, and perplexity, and risk of loss, than variations in any marked degree of the exchanges, such as occurred in this country during the war, such as have recently occurred in the United States, and such as are perpetually occurring in the states of South America.

allowed to outweigh the objections on general grounds to such a measure. But the precedent is a dangerous one, and rather than leave to any directors *the power of judging of the propriety of* departing from the general rule which should determine the amount of their issues of paper, it were better that some other provision were hereafter made (supposing any such provision necessary, which assuredly I do not admit) against the occurrence of a similar crisis; a crisis, however, which could not have occurred at that time, nor would be likely to occur again, without previous mismanagement, in a great enlargement of the securities held by the Bank, precisely at the time when the propriety of diminishing them had been urgently indicated.

There is, indeed, no point connected with the regulation of the currency upon which I have a stronger conviction — a conviction in which I am fortified by the concurrence of several of my mercantile friends who unite a knowledge of principle with great experience in business — than that the directors of an establishment, which is entrusted with the administration of a sound paper circulation ought not to be allowed to consider themselves at liberty to depart from the strict rules laid down for regulating it, in consequence of any views which they may entertain, of the claims of the mercantile interests for accommodation, or of inconvenience to trade from not regarding them.

There is, moreover, reason to believe that the trade and manufactures of the kingdom would be generally in a sounder state if they depended less upon what is called banking accommodation; and that they have been more injured than benefited on every occasion in which (with the single exception under the special circumstances just now referred to of 1825) the Bank has departed from its own supposed rule of regulating its issues by the

exchanges, in order, as alleged, to prevent inconvenience or discredit to the commerce of the country. To prevent inconvenience to the commerce of the country, from an undue contraction of the circulation, was the professed object of applying the extra deposits on the West India loan to an increase of securities in 1835; a measure which, as I have already had occasion to observe when treating of that period, contributed in no small degree to the undue enlargement, and subsequently to the contraction and disturbance, of commercial credit in 1836–7. And the interference of the Bank in behalf of the Northern and Central Bank, and of the American houses in 1836, however well intended and however it may have averted heavy losses to eminent firms at the time, may be considered, in several points of view, as having tended to aggravate the recent mischief arising to the trading and manufacturing interests from the extravagance of American banking. The effect of that interference was, to skin over the sore in American trade and banking, and so to allow the constitutional disease (of abuse of credit) to proceed to a greater extent and depth, till it should break out with increased virulence, as in the recent instance; not to mention the anomalous position in which, in consequence of that interference, the Bank of England was placed, of having to send an agent to America to collect the debts which it had made its own, and of being thus placed in intimate communication, which was anything but desireable, with the United States' Bank. Among the effects of that communication seems to have been the transmission of bullion thither in the spring of 1838, upon which I have already remarked. In short, I am not aware of any instance (with the single exception already noticed) in which, however well intended the deviation of the Bank from its straight course,

with a view *to benefit commerce*, has not been attended with more harm than good to the trade which it has been its professed object to support.

SECTION 4.—*Result of the Review of the Management of the Bank in* 1838 *and* 1839.

As the result of the impartial review in the preceding pages of the management of the Bank, in as far as a judgment can be formed of it from its public measures, and from the monthly Gazette returns of its liabilities and assets on the average of the three months preceding, the following appear to be the main points open to criticism.

1. The impatience manifested at the commencement of 1838 to reduce the stock of bullion.

2. The forcible operation towards the close of 1838 for the purpose of extending its securities by increased facilities for loans, at a time when the market rate of interest was rising above the Bank rate, and when the proceedings of the banks in America (particularly with reference to the cotton trade), and the state of commercial credit on the Continent, were calculated to suggest, as a measure of precaution on the part of the Bank, rather to reduce than to extend its securities.

3. The continuing, during nearly six months, namely, till 16th May, 1839, the same relatively low rate of interest, and the extended facilities for loans, notwithstanding the continued rise in the market rate of interest, and notwithstanding the notoriety of the large importations of American securities then in progress, the negociation of which was of course greatly promoted by the comparatively low rate of interest and discount charged by the Bank. The effect of this state of things being,

that the Bank had by the end of May lost 5 millions of treasure, while its securities had increased by upwards of 3 millions.

4. The inefficiency of the measures taken between May and July to stop the further progress of the drain.

5. The hesitation and inconsistency of the proceedings of the Bank in respect of the dead weight.

6. The recourse to the bankers of Paris for assistance: a measure, the resort to which could not be justified on any ground but that of its being considered as the only remaining resource against a suspension of cash payments; and doubtless, it was the lesser evil; but so discreditable an expedient ought not to have been resorted to until the dead weight, or a considerable portion of it, had been converted, and such conversion found to be ineffectual.

The general conclusion, with reference to the management of the Bank being, that while, à priori, the inference is irresistible, that there must be something essentially erroneous in the system or in the regulation by which, in a state of profound peace, and without any counteraction from the country banks, the Bank of England should have sustained so narrow an escape from suspension of cash payments; so it appears, by a reference to particulars, that the measures of the Bank were characterised by anything but a due and vigilant regard for the interests of the public in the maintenance of the convertibility of Bank paper, or for its own credit, which has been much impaired in public estimation both at home and abroad, by its resort for aid to the bankers of Paris.

SECTION 5.—*Vindication of the Bank from some groundless Charges.*

While, in pursuance of the design upon which this work has been from its origin conducted — an essential part of which has been to give an account of the state of the circulation, with such remarks as were suggested by a view of the mode in which it had been regulated by the Bank of England — I have found myself under the necessity of animadverting on the management of the Bank, such as it has appeared, on grounds open to the public; I have now to offer some remarks upon charges, very groundless, in my opinion, which have been brought against it.

This I feel myself bound to do, not only in fairness to that establishment, but also with a view to point out what appear to me to be very erroneous impressions, mixed up with those charges of the effects of variations in the elements of the position of the Bank, on the rate of interest, and on prices, and on the connection between the rate of interest and prices — impressions which, being extensively entertained by persons who take great pains in inculcating them upon others, and who are likely to take an active part in the forthcoming discussions in parliament on the subject of banking, have an importance which might otherwise not belong to them.

Such is the prevalence, almost universal, of the currency theory, namely, of the theory which ascribes to the regulation of the Bank issues a direct influence, as an originating cause, in producing great variations in the prices of commodities, as well as in the rate of interest and in the markets for shares, that the most exaggerated and extravagant declamations on the power exercised by the Bank directors in enlarging or narrowing the

circulation, and thus raising or depressing all markets ad libitum, are uttered with the most perfect confidence, and are generally allowed to pass current without question. And perhaps they would not be worth questioning, were it not that the implicit belief in them may be calculated to be attended with a practical influence in the discussion on the renewal of the Bank of Ireland charter, and probably on banking generally in the United Kingdom, in the course of the present session. As a specimen of the extravagance of exaggeration, introduced as it is into one of our most respectable journals, I have preserved, and now insert, the following extract from the City article in the *Morning Chronicle* of the 3d of June, 1839.

"In a commercial country like Great Britain, the management of the paper circulation is necessarily one of the most important trusts that it is possible to repose in any body of men, for the most vital interests of the community depend on its proper administration. Our present system of national banking is, however, replete with errors, which it is to be hoped the legislature will in course of time remove. The charter of the Bank of England has not many more years to run, while the term of that of Ireland has already expired, and the endeavours, therefore, of the commercial interests of the sister kingdom are strongly exerted to prevent the renewal of the monopoly which it is declared has been, and now is, one of the greatest obstacles to Irish prosperity. The evils to which we allude are in the conflicting motives between public and private advantage, which, it cannot be denied, must more or less exist in the minds of those who have the direction of the banks of England and Ireland. In both countries they are for the most part influential, wealthy men, who carry on private operations on an extensive scale, and to whom, therefore, the rise or fall in the value of commodities is a most material consideration. Individually, perhaps, they are no worse than others would be, similarly situated; but it is the fact of their being so circumstanced as to be obliged to choose between duty and interest, that forms one of the strongest arguments in favour of the separation of the issue of paper from the rest of the banking business. In Ireland, notwithstanding that operations are on a less extensive scale, and that the country is poor, the mischiefs are of a grosser nature and more severely felt than here, where, on account of the disasters which have already ensued from Bank mismanagement,

the eyes of the people are opened, and the manœuvres of the Bank parlour being severely scrutinised into, the projected evils are either nipped in the bud, or, from previous preparations, fall comparatively harmless upon the mercantile community. A check of this sort is beginning, however, to be apparent likewise in Ireland, and the defects of the system have begun to be pointed out by many of the Irish papers. The Bank directors have it in their power to create a rise or fall in the price of most articles of trade, by an expansion or contraction of the circulation; and being themselves, moreover, greatly interested in the slightest fluctuations, they must, as a matter of course, according to the laws of human nature, lean to those measures which most accord with their own mercantile views and expectations. The directors besides have a very unfair advantage over their competitors in trade; for the knowledge which they possess as to when the screw is to be put on or taken off, enables them in the first place, greatly to extend their operations; and in the second place, to saddle others with goods at high prices at periods of animation, and be enabled to purchase at the lowest mark during times of depression; thus, in fact, driving less well-informed operators out of the field of competition with them. The sphere of the movements of the Irish Bank directors being so limited, comparatively, the effect is more apparent and harder to be endured. The *Dublin Pilot*, on this head, says, in one of its recent numbers —

" 'The 'Bank directors' in London and Dublin know when panic is approaching, and of course know when *to sell out;* and if the panic should not come fast enough, they know how and are willing enough to hasten it. Very well; by the same knowledge they can foresee whereabouts 'an improvement in the times' sits — that is to say, free discounts, expanded issues of paper; and they prepare for it by times by purchasing up all the mercantile property they can lay hands on at the previously depressed prices—*depressed by themselves, mind.* Three or four months of free discounts will bring an advance of twenty to thirty per cent. in the value of the leading article, and what with newspaper aid of one sort or another, they are enabled to sell out again at immense profits, so that the fortunate monopolists contrive to realise princely fortunes in a few years. Of course their operations are not so clumsily managed that vulgar eyes can perceive them, but they flow on as we describe, nevertheless. We have often given utterance to these opinions in one shape or another. We have bellowed in the ears of our statesmen the injustice of conferring on any body of men the power of contracting or expanding the measure by which the value of all men's property is to be sold. Mr. O'Connell told a story at a late meeting of the tyrant Procrustes, who invented an iron bed of that peculiar construction that it could be extended if the condemned victim to be placed upon it were shorter than

others, and if longer the legs of the victim were cut off. The twenty-four gentlemen who manage the Bank of England, and the fifteen gentlemen who manage the Irish concern, conduct them just as Procrustes conducted his iron bed. When they want commodities cheapened they can chop off the legs of the circulation, and then 'money is scarce,' and 'times are bad;' and when they want to raise prices, they stretch out the paper issues to extraordinary dimensions, prices rise, money is plenty, and while all is apparently smooth these favoured gentlemen monopolists, or some of them, as we have already shown, may 'sell out.'

"As a proof of the want of confidence which is the result of the present system, in any times of peculiarly severe pressure, merchants and men of business, instead of looking for and expecting relief from the banks of either country, are only anxious, on the contrary, to ascertain whether the operations of those establishments may not further perplex and embarrass them. This is a state of things which ought not to be, and more particularly from institutions that are meant, and ought to be, of national use and benefit."

It must, of course, be evident that the foregoing extracts were written with reference to the discussions pending in last session of parliament on the question of the renewal of the charter of the Bank of Ireland. To enter on that question would be foreign to my purpose; I would only incidentally observe, that if no weightier reasons exist against the renewal than the supposed power, and the sinister exercise of it, by the directors here described, there would not be much difficulty in deciding upon it: and widely as I differ from the writers on all the assertions advanced by them, there is none on which I differ more widely with them than in that which relates to the greater influence ascribed to operations of the Bank of Ireland, within its sphere, than to those of the Bank of England. The same sort of reasoning unquestionably applies to both, but in an infinitely smaller degree to the Bank of Ireland than to the Bank of England; and to neither will the attributing of the power, or the charge of the abuse of it in the manner supposed, be found, with the slightest semblance of truth, to apply.

As regards the Bank of England, Mr. Hume has, by his speech in the House of Commons on the 8th of July last, of which a copy, revised by him, has been extensively circulated, given his support to a great deal of the same sort of exaggeration of the influence of the regulation by the Bank of England of its issues upon prices, as well as upon the rate of interest.

SECTION 6.—*Examination of the Effects imputed by Mr. Hume in his Speech of the 8th July,* 1839, *to the Management of the Bank of England.*

It appears to me, that while Mr. Hume is correct, as might be expected, in his figures and tabular statements, he draws inferences from them perfectly inconsequent, and entirely misconceives the working of the system of the Bank as deducible from those very statements. It must be said, however, in justice to him, that the errors and fallacies which pervade his reasoning are not peculiar to him. But they are put forth with rather unusual distinctness and prominence, and present, therefore, a better than ordinary opportunity for an endeavour to clear the ground of them, as well both in fairness to the Bank as with a view to future discussion of the subject.

The main sources of error here alluded to may be classed under he following heads:—

I. The use of the terms abundance and scarcity of money, dearness, and cheapness, and value of money, to signify chiefly variations in the rate of interest, although occasionally and without distinction applying them to the purchasing power of money. To this ambiguous use of the term is probably owing Mr. Hume's frequent reference to variations in the prices of public securities, and in

the prices of commodities, as being produced by the same identical operations of the Bank.

II. The blending of the deposits with the amount of Bank notes as a criterion of the quantity of paper money in circulation, emanating from the Bank of England; in other words, blending under one common term, and ascribing the same general effects to the circulation and the liabilities of the Bank.

III. A shifting of the criterion of the quantity of money, as depending upon the Bank, and operating upon prices, from the deposits and circulation to the securities and bullion, or assets, and sometimes to the securities alone.

IV. An assumption that it is in the power of the Bank to regulate the market rate of interest.

V. The theory that the markets for commodities are directly influenced by every alteration in the quantity of money in the hands of, or emanating from the Bank, or by every marked variation in the rate of interest.

I. *Ambiguity in the use of the term Value of Money.* — The practice of using the terms, abundance or scarcity of money, low or high value of money, and cheapness or dearness of money, and more or less of demand for money, synonymously with a low or high rate of interest, has of late years become very general, not only on the stock exchange and among the money dealers, with whom it had for some time previously been in general use, but amongst bankers and merchants. Mr. Hume is not, therefore, chargeable with introducing any novelty by such use of the terms, but he has suffered himself to be led into no little confusion in their practical application by not distinguishing between their technical and comparatively modern use, and the more general signification attached to them, of purchasing power or exchangeable value, as applied to commodities and labour.

The whole train of his reasoning upon the consequences which he ascribes to the quantity of money as emanating from the Bank assumes the identity of their operation on the money market, and on the markets for produce; that is, on the rate of interest and on the prices of commodities. Thus after going back, as he does, for the last twenty years, and showing that in 1822 there was an increase of money as compared with 1819, Mr. Hume proceeds to observe (p. 6. of his Speech) —

"It was in consequence of this greater *abundance of money*, and a greater stability of things "resulting from a return to cash payments, that "the government was able in 1822 to reduce "160,000,000*l.* of 5 per cent. to 4 per cent. stock, "which it had not been able to effect during the "eight previous years of peace, while the suspension of cash payments continued. It was also "owing to the greater abundance of money that "the Bank in 1822 reduced the rate of interest in "its discount from 5 to 4 per cent. Another proof "of the greater abundance of money is in the "comparative prices of 3 per cent. consols, which, "in August, 1819, stood at 71½ per cent., and rose "in August, 1822, to 80½ per cent."

Now, admitting as I do, that the quantity of money in February, 1822, was greater than in 1819*, I have to observe that the effect here ascribed to abundance of money is a fall in the rate of interest, and the proof of the greater abundance is the fall of the Bank rate of discount, and the rise of consols. It is hence evident that abundance of money is, in

* The contrast is, indeed, not a little amusing between Mr. M. Attwood labouring to show that money was less in quantity, and that the very low and falling prices of commodities in 1822 were not from their abundance, but from the scarcity of money; and Mr. Hume, who shows that money was increased in quantity, and adds as a *proof* of abundance of money that the rate of interest had fallen.

the effects here ascribed to it, applied in the sense of value of money in use or on hire, the measure of which value is the interest or net rent stipulated for such use.

It will be seen, that in the subsequent passages of the speech the term is applied *indiscriminately*, as suits the purpose, in both senses, and so as to include under the same category consols and commodities: hence not a little of the confusion that pervades the whole of the reasoning; a point which it is very material to bear in mind with reference to the further conclusions.

II. *Deposits, considered as a part of the Circulation of the Bank of England.*—With reference to the deposits, Mr. Hume states (p. 8. of his Speech), —"He would not admit it to be "a question "whether or not deposits should be a part of the "circulation; for as they were payable by the "Bank on demand, he must consider them equally "so as the paper in circulation." He accordingly blends them under the common terms of paper money and circulation, and considers the variations in their amount as coming under the direct influence of the Bank.

That the deposits in the hands of the Bank, and the promissory notes actually issued by the Bank, agree in some important particulars is doubtless true. The Bank is *liable* to be called upon for the payment of the deposits, or the greater part of them, on demand; and agreeing in that particular, the amount of them and of the Bank notes issued is properly designated under the common term of *liabilities*. But the probability of the demand from the one or the other is different, according to the character of the deposits*; and the deposits differ from the Bank

* The different character of the deposits, and the circumstances by which the variations in their amounts are determined, have been so fully and clearly stated by Mr. Pennington, in a

notes issued, inasmuch as the former, while they remain in that state, that is in the hands of the Bank, consist of money, indeed (not, however, created by the Bank), but of money that is unemployed and inert. Whereas, the Bank notes issued are so much money, all, or the greater part of which, is in actual employment, as a part of the medium, with the metallic circulation, for current payments.

There may be causes of variation in the amount of the deposits on a very large scale, while the circulation undergoes a comparatively trifling alteration.

The amount of the government deposits * is influenced to a considerable extent by an increasing or failing revenue, or by special financial operations. The deposits of bankers† are under a direct influence from the foreign exchanges, the market rate of interest, and the state of credit; while the amount of the circulation may be uninfluenced, or only in a very inferior degree, by any of these circumstances; and the variations of it are to be considered as the consequences, rather than the causes, of variations in the amount of pecuniary transactions.

The blending, therefore, of the deposits with the Bank notes, under the term of paper circulation, and treating of them as in their origin proceeding from designed operations of the Bank, and as being identical in their action upon prices both of securities and of commodities, or, to speak in lan-

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letter from him, inserted in the former part of this work, Vol. II. p. 369., as to supersede the necessity of entering into them here more at large.

* The government deposits, according to an account in the Appendix to the Bank Charter Report, varied little above or below 4 millions, from 1826 to 1831, both years included.

† The deposits belonging to London and other bankers are stated by Mr. Horsley Palmer in his "Tract on the Causes and Consequences of the Pressure on the Money Market in 1836," as varying from 3 to 4 millions.

guage less technical, on the rate of interest and on the prices of produce, leads inevitably to confusion, and is quite incompatible with any consistent application of their variations to elucidate the working of the system.

Mr. Hume, however, makes this confusion of terms instrumental in a charge against the Bank of excessive fluctuations in the amount of the currency. Thus, at page 16.,—

"He (Mr. Hume) asserted, that the directors "had acted in 1835–6, and again in this year, "contrary to that understood principle; and, so "far from steadiness in the currency having been "obtained through the agency of the Bank, he "would show, that by every one of its operations, "there had been a continual fluctuation, perpetual "ups and downs, without any apparent or dis-"coverable principle. And to show the extent "of these fluctuations, he would now state some "of the changes in the amount of Bank notes and "Bank post-bills in circulation in different years, "as follow:—

	£		£
Dec. 20. 1823,	17,575,000		
Dec. 24. 1825,	25,611,000	Increase of Bank notes and Bank post bills in 24 months - -	8,036,000
June 16. 1827,	20,503,040	Decrease of Bank notes in 18 months -	5,107,960
April 18. 1829,	20,750,600	Increase of Bank notes in 20 months -	247,022
June 26. 1830,	19,978,550	Decrease of Bank notes in 14 months -	771,510
Feb. 4. 1832,	19.156,990	Decrease of Bank notes in 20 months -	821,560

"But the extent of the fluctuations in the issues "of paper by the Bank would appear more clearly "when he afterwards stated the amount of bullion "and of securities. The circulation and deposits "of the Bank, from 1834 to this time, had fluc-"tuated greatly. In 1834, on the 1st of July

" the amount was 33,991,000*l.*; and, on the 16th " of December, 30,560,000*l.*, a decrease of nearly " four millions. In 1835, on the 28th of July, " the amount was 29,833,000*l.*; and, on the 15th " of December, it was 35,050,000*l.*, an increase of " more than five millions. In 1836, on the 8th " of March, the amount was 34,705,000*l.*, and on " the 15th November, it was 30,225,000*l.*, a de- " crease of near five millions. In 1838, on the " 1st of May, the amount was 30,090,000*l.*, and " on the 25th of June, 1839, 25,668,000*l.*, a de- " crease of four and a half millions — thus always " varying, often within a few months, to these " great amounts. Let the House compare these " fluctuations just enumerated with the compara- " tively slight change in the amount of the circu- " lation of joint stock banks and of private banks " in the same period, and then say how far the " joint stock banks deserve the censure cast upon " them for over-issue of paper. The honourable " member read the following table:—

RETURN OF THE CIRCULATION OF PRIVATE BANKS AND JOINT STOCK BANKS, THREE MONTHS, ENDING —

	Private Bank.	Joint Stock Bank.	Total.
	£	£	£
1833 Dec. 28	8,836,803	1,315,301	10,152,104
1834 June 28	8,875,795	1,642,887	10,518,682
Dec. 28	8,537,655	2,122,173	10,659,828
1835 June 27	8,455,114	2,484,687	10,939,803
Dec. 26	8,334,863	2,799,551	11,134,414
1836 June 25	8,614,132	3,588,064	12,202,196
Dec. 31	7,753,500	4,258,197	12,011,697
1837 July 1	7,187,673	3,684,764	10,872,437
Dec. 30	7,043,470	3,826,665	10,870,135
1838 June 30	7,383,247	4,362,256	11,745,503
Dec. 31	7,599,942	4,625,546	12,225,488
1839 Mar. 30	7,642,104	4,617,363	12,259,467
June 29	6,917,657	4,167,313	12,275,818

The lowest, Dec. 28. 1833	£10,152,104
The highest, June 29. 1839	£12,275,818
Increase	£ 2,123,714

"It thus appeared that the greatest variation "in the amount of private and joint stock circu- "lation in the seven years, 1833 to 1839, was "from 10,152,104*l.* to 12,275,818*l.*, or 2,123,714*l.* "It was wonderful, considering what the conduct "of the Bank had been in forcing out money— "considering what temptations it had held out to "private banks to extend their issues, and to in- "dividuals to engage *in wild and hazardous spe- "culations*—that both joint stock banks and indi- "viduals had not yielded to the temptation to a "much greater extent than they had done. All "these statements were drawn from public docu- "ments, from reports of committees, and other "official sources. *He put forward nothing in "the way of figures that he believed could be "disputed; and, resting upon these proofs,* he "asserted that the Bank of England had acted "in a most injurious manner, and widely different "from what ought to have been the conduct of a "great public body, having full power confided "to them over the currency of the country, and "holding the influence which the Bank held."

In order to avoid the imputation of giving a garbled extract, I have inserted the entire passage, although a part of it, namely, the reference to the amount of Bank notes and Bank post-bills in circulation between December, 1823, and February, 1832, is not strictly relevant to the examination under the present head. But irrelevant as it is to the more immediate topic, it is worth a passing notice here as showing that when it answers the purpose of a charge against the Bank, the circulation of Bank notes can be distinguished from the deposits, which are in all other instances blended.

And with reference, moreover, to the extent of the fluctuations in that interval, Mr. Hume must surely have been aware that, at the close of 1825,

the derangement of the circulation, and more especially of the country circulation (how occasioned I have elsewhere shown, but it is not now the question), was such as could only be remedied, and remedied it was, by the very great addition made for that very purpose by the Bank of England. And the subsequent subsidence to the usual amount was the necessary effect of the restoration of confidence, and of the general circulation to their ordinary state.

But the immediate purpose, in referring to this quotation from Mr. Hume's speech, is to point out, more especially, the mode in which the blending of the deposits with the circulation of the Bank of England is made subservient to the establishing of a comparison injurious to the Bank of England in contrast with the private and joint stock banks. Surely, if the circulation only of the latter is to be taken for the purpose of any inference of the regulation of their issues, the same rule should, in fairness, be applied to the former. And if the circulation only of the Bank of England, at the dates nearest to those selected by Mr. Hume, be taken, it will appear that the fluctuation was much less in proportion than that of the country banks.

I am not disposed to think that, as regards the mere amount of the circulation of the country banks, there is any fair ground of charge against them, of having unduly extended it, but still the fact is that the fluctuations of it were much greater than that of the Bank of England. And I am inclined to think, that if the *liabilities* of the private and joint stock banks were made known, the variations would have been found (with the exception, perhaps, of the distinct effect of the East and West India deposits) to have been still greater in proportion.

There needs not, it is to be presumed, any more striking instance of the confusion of reasoning and

the inconsequence and unfairness of inference to which the blending of the deposits and the circulation is calculated to lead; the deposits being, moreover, an element of its position over which the Bank has no control whatever. And yet it is with reference to such statements, that Mr. Hume adds, — "He put forward nothing in the way of "figures that he believed could be disputed; *and* "*resting upon these proofs*, he asserted that the "Bank of England had acted in a most injurious "manner."

I believe that the Bank, in employing a part of its deposits as it did in 1835–6, acted injudiciously; but that is a point belonging to the question of investments in securities by the employment of deposits, and is quite wide of anything that Mr. Hume seems to have had in view in this statement, which refers simply to the amount of the deposits blended under one head with the circulation.

As to the charge of excess in the circulation, properly so called, the answer of the governor of the Bank, Sir John Rae Reid, to that part of the Speech of Mr. Hume just quoted, is quite decisive. "I have here," he said, "an account of the circulation of Bank of England notes, showing the "average of seven years from 1833 to 1839, ending "the 5th of April in each year. The amount of "circulation was,

"On the 5th of April,	1833	-	18,900,000
—	1834	-	18,400,000
—	1835	-	18,500,000
—	1836	-	18,400,000
—	1837	-	18,300,000
—	1838	-	18,300,000
—	1839	-	18,400,000

"Now it really does appear to me (and I hope "the House will think so also), that seeing the "nearness to which the circulation in each of these

"respective years approached the other, no complaints can be made on this particular score, as "having been the cause of any particular overtrading. I take the average amount of circulation for thirteen weeks previous to the before-mentioned dates, from April, 1833, to April, "1839, in each year; and without troubling the "House by going into particulars, I must say "that the difference is so small that it is not "worthy of notice; and that, with all the disposition to find fault, there is no opportunity for "doing so."—*Mirror of Parliament*, July 8. 1839, p. 3747.

It is impossible that there could be a more complete case to show that, whatever may have been the causes of the phenomena in the rate of interest and in the state of trade, the origin of them, their moving force, could not. with any semblance of reason, be referred to any undue increase in the circulation. And although I do not think that there is, under the circumstances, any fair ground of charge against the country banks for having unduly extended their part of the circulation, it is not easy to conceive any conclusion less warranted by facts than the statement, that the *circulation* of the Bank of England exhibits more fluctuation than that of the country banks.

III. *Securities held by the Bank of England, with or without the Amount of Bullion, considered as tests of the Increase of Bank Notes.*

A further fertile source of inconsistency of reasoning is, the shifting of the test of increase of Bank notes from the liabilities to the securities and bullion, in the first instance, and subsequently to the securities alone. Thus, at page 10., Mr. Hume had said,

"I may repeat that the amount of securities "held by the Bank is, with the amount of bul-

"lion, the true and only tests of the increase of "Bank notes."

And then at page 17., after showing the great variation in the securities from May, 1832, to June, 1839, he goes on to observe,—

"It ought particularly to be noticed, that on "the 11th of December, 1838, the amount of "securities in the Bank was 20,707,000*l.*; and, "although the exchanges were against Eng-"land, and the bullion going abroad, the directors "continued to issue money at 3½ per cent. on "approved securities; so that, when the last return "was made on the 25th of June, 1839, the securi-"ties had increased to 23,934,000*l.* In other "words, they had forced out money, and increased "the paper circulation to the amount of more than "three millions, although, during all that time, the "exchanges were against England; and he be-"lieved that, if there had been weekly returns, it "would appear that the circulation had been in-"creased by nearly four millions during the first "part of that period. *One of the immediate effects "of this increase was, by creating speculation, to "raise the price of corn, and of every other article: "for example, of upland cotton in the Liverpool "market from* 6½d. *in December to* 9½d. *per* ℔., "*and corn from* 73s. 6d. *to* 81s. 6d. *&c.*"

The extraordinary reasoning by which the increase of the securities between December, 1838, and June, 1839, is assigned as a cause of the rise of cotton and corn, I shall have occasion to remark upon hereafter. In the mean time, my insertion of the foregoing extract is for the purpose of showing that here, because, on the above comparison, there appears to have been an increase of upwards of 3 millions of securities, money is said to have been forced out, and to have constituted an increase of the paper circulation by an equal amount, notwithstanding that the

actual circulation of Bank notes was less by upwards of 300,000*l.*, and the deposits were reduced by upwards of 1,400,000*l.* So that, while by the definition, in the passage of the Speech before quoted, the circulation and the deposits together, that is, the liabilities, constituted the quantity of paper money as regarded the Bank of England, and while, according to this definition, the quantity of money in June, 1839, was less by 1,700,000*l.* than in December preceding, the adoption in the subsequent passages of the securities as a criterion, makes the increase of the quantity of money in circulation upwards of 3 millions.* This is, indeed, a specimen of blowing hot and cold with the same breath. And however convenient for the purposes of the speaker such a mode of reasoning may be, it is conducive to anything but clear and just conclusions.

The increase of the securities by the Bank, in the interval here referred to, forms undoubtedly a ground of objection to the management; but not for the reasons stated by Mr. Hume. It did not force out money in the way supposed by him, so as to add to the circulation, which was in fact diminished; but it counteracted the effect which the demand for bullion ought to have had, in contracting the circulation, at a time when the coffers of the Bank were experiencing a rapid drain.

IV. *Assumption that it is in the power of the Bank of England to regulate the market rate of Interest.*

Mr. Hume, throughout the whole of his speech, seems to be impressed with, and to inculcate, the opinion that the Bank of England, by its several notices of the rates at which advances on loans would be made, or bills discounted, really could

* And a note at page 18. notices that, on the 17th September, 1839, the amount of securities was 25,936,000*l.*, so that the circulation, according to Mr. Hume's doctrine, was increased, as compared with December, 1838, by upwards of 5 millions.

or did originate or cause the variations in the rate of interest and discount; upon the extent of which variations he descants, as being productive of the most injurious consequences. Of those several notices from the Bank, which I have before adverted to, a correct account is given in the speech.

After contending for the proofs which those measures and the low stock of bullion afford of mismanagement by the Bank of England, he proceeds, in the following extract, to contrast with it the management of the Bank of France; and, passing a high eulogium on it (not higher than, I believe, it deserves), he lays particular stress upon the circumstance of its having, for many years, preserved a uniform rate of interest, namely 4 per cent., blaming the Bank of England for not preserving the same uniformity.

"He would state to the House how very dif-
" ferent had been the conduct of the Bank of
" France in times of difficulty. It appeared from
" the evidence of Mr. A. Baring, before the Lords'
" committee of 1819, that even in a period of
" panic and considerable pressure, the Bank of
" France never reduced or increased the rate of
" its discounts of commercial bills. All it did, in
" order to check excessive speculations, was, to
" reduce the period of discounts from ninety days
" to sixty; and for a short time to forty-five days.
" From the year 1819, until the present time, the
" Bank of France had never increased the charge
" for discounts, but had preserved an uniform rate
" of 4 per cent. all that time, and had never
" refused to discount any amount of commercial
" bills with proper indorsement; and he believed,
" that the Bank of France really gave much more
" assistance by discount to the commerce of the
" country than the Bank of England did. During
" the whole of the political disturbances in France
" in 1830 they had steadily continued in that

"course. He had lately examined that bank, and "he would mention to the Chancellor of the Ex-"chequer, the answer of the governor to him, when "he asked whether there would be any objection "to his seeing the accounts of the Bank — 'None "at all; our house is a house of glass. Every "man may see our transactions.' In fact, the "transactions of the Bank of France are every day "printed, and returns of them made to the Trea-"sury. These accounts are regularly made up, "and printed, showing every shilling received and "paid during the day, and the amount of discounts "under every head; in short, the whole daily "transactions of the Bank are regularly entered for "inspection, and also published yearly to the world; "so that there is no mystery, and the greatest "confidence in the operations of the Bank ac-"cordingly existed in France. Whilst, as regards "the proceedings of the Bank of England, all is "secrecy, mystery, and consequent want of confi-"dence. On a late occasion, when the Belgian "Bank failed, a run took place on the banks in "Paris, in consequence of the erroneous principles "on which Lafitte's bank was for a time con-"ducted, and there was considerable pressure in "the money market in France: but all that the "Bank of France did, was to re-discount some of "the paper held by Latitte's bank at forty-nine "days' date, and thus it gave efficient assistance, "and stopt the run. That was all that had been "done to place the currency of Paris in its proper "state, while we were undergoing most severe "attacks upon our property, occasioned by the most "erroneous currency arrangements of the Bank of "England, which was the parent, instead of being "the preventor, of speculation. While the Bank "of England had been discounting and lending at "3½ per cent., 4 per cent., 5 per cent., and 5½ per "cent., the Bank of France, avoiding such vari-

"ation and its evil consequences, had continued "its discounts at 4 per cent. When commercial "men in France wanted money, they went to the "Bank of France and got discount without diffi-"culty; the result of which was that the amount of "commercial discount by that bank was much "more in proportion to the commerce of the two "countries than that of the Bank of England. "*He complained, that the Bank of England, by "lending money at times at low interest, often lower "than the market price, on stock and other securities, "did, in reality, urge to over speculation by mer-"chants, and to over issues of paper by joint stock "banks*; and, having got the country into great "excitement of high prices and apparent pro-"sperity, altered their plan, when their coffers were "emptying, — reduced their discounts, — *raised "the interest, and, to prevent the exhaustion of their "bullion, suddenly cramped the whole of the com-"mercial transactions of the country. The Bank of "France did no such thing.*"

The cases, however, of the Bank of France and the Bank of England are very far from being sufficiently analogous to justify such inferences.

The currency of France consists, in a very large proportion, of the metals; and its foreign commerce forms a very small proportion of the transactions in which that currency is employed. Very different is the case in this country, where the metallic part of the currency is so much smaller, and the commerce so much larger. It may therefore be, and probably is, a comparatively easy matter for the Bank of France to collect and retain a larger amount of bullion in proportion to its securities; and, as I shall have occasion hereafter more particularly to observe, a large stock of bullion is the only means of avoiding the necessity of operating forcibly on the securities when a decided drain manifests itself. The paper

circulation of the Bank of France, moreover, is relatively small. Under these circumstances, there can be no great difficulty in preserving a uniform rate of discount. But I should apprehend that the Bank of France cannot maintain that uniformity of rate without great variations in the amount of securities or of bullion; and Mr. Hume overlooks the necessary inference, from the very circumstance which he notices, that in two instances which he mentions they did what was equivalent to an advance in the rate of discount, namely, that in 1818 (in order, not as Mr. Hume supposes, consistently with his theory, to check excessive speculations, but to counteract the drain of specie)* they reduced the period of discounts from 90 days to 60, and, for a short time, to 45 days, and on a recent occasion to 49 days. Now, as regards accommodation to the mercantile classes, I am strongly of opinion that a reduction by the Bank of England of the length of the commercial bills which it would discount to 45 days, preserving the rate at 4 per cent., would have been felt as a greater inconvenience, a more severe pressure than an advance of the rate to 6 per cent. for the longer term.

Still greater would be the inconvenience to the trading community, and more effectual, consequently, for the recovery of the exchanges, would be a limitation of the amount of bills to be discounted. This was the expedient adopted by the Bank of England in 1795. But in proportion as

* The circumstance is alluded to in the evidence of Mr. Baring, now Lord Ashburton, before the Lords' committee on cash payments in 1819. "Their bullion," Mr. Baring said, "was reduced by imprudent issues from 117 millions of francs to 34 millions of francs, and has returned by more cautious measures to 100 millions of francs, at which it stood ten days ago, when I left Paris. It must, however, be always recollected that this operation took place in a country every part of which is saturated with specie."

it would be more effectual, by so much the more distressing it would be to the mercantile classes, than a considerable rise in the rate of discount.

If the usury law had been preserved in all its impolicy and absurdity to the present time, the Bank would have been under the necessity of adopting one or other of these alternatives; and it is difficult to say which of the two would have been most severely felt by the mercantile interests.

In the event of the former being adopted, the merchants would complain that, inasmuch as the course of their trade was regulated in the description of the bills they received, whether as remittances which were made to them from abroad, or for their sales in the home market, by the reliance which they were led to place upon the conversion of such as had not more than three months to run, such a measure as that of the Bank of France, of reducing the number of days, might place them, having their portfolio full of bills of a longer date, in great difficulty, from the uncertainty of being able to convert them at all.

The other alternative, of a measure similar to that which was resorted to by the Bank, in December, 1795, which I have before referred to, of limiting the total amount to be advanced, and, in pursuance of that regulation, discounting only a certain proportion of the bills sent in, without reference to the credit of the parties, would be attended with still more inconvenience, inasmuch as the merchants could not rely, however high their credit might be, upon realising, upon an emergency, the best bills in their possession. I mention these as the complaints which would have been made by the mercantile interests; not, however, admitting that, to the extent here stated, they would be well founded; or that they ought to be allowed to weigh against the claims of the public, which require that the due regulation of the cur-

rency should not be made subservient to considerations of partial convenience to particular branches of the trading community. I say partial convenience to particular branches, because it cannot be too often repeated, that an interference with the due regulation of the currency can never be for the general benefit of trade.

The Bank adopted, in 1795, a further limitation, which was to confine the accommodation to each firm within a certain amount, taking into consideration the bills running upon, as well as those proposed for, discount. Such rules were more readily submitted to at that time than they would be now, when so much larger interests are at stake; but even then the remonstrances were, as I have before described*, loud, and from powerful parties, against such restriction.

The Directors of that time were not influenced by the modern doctrine of the claims of the mercantile interests, at the expense of the claims of the public. They accordingly continued the process of contraction of the circulation. But the pressure was very severe. While the Bank rate of discount for bills so limited was 5 per cent., the real price paid for loans, and for forbearance, was uncommonly high, much higher than any within the experience of modern times: and sacrifices, much beyond any rise in the rate of interest that we have lately witnessed, were submitted to in the difference between the credit and ready money prices of stocks and commodities. I mention this only to show that Mr. Hume's *beau idéal* of a uniform rate of discount by the Bank may be attended with much more inconvenience than he seems to be aware of.

There were periods, indeed, even during the restriction on cash payments, when a rate of dis-

* Vol. I. p. 200.

count by the Bank of 8 or even 10 per cent. would have been considered preferable to some of the limitations which then prevailed; and among others, the length of the bills being confined to 61 days, instead of the present limit of 95 days. At the same time, I am not at all prepared to say that there are not some advantages attending this more severe mode of limitation. In an ambitious and enterprising commercial community, among whom there is generally a tendency to outrun the due bounds of credit, inevitably leading to a reaction, it is desirable to hold out a constant memento against the risks of over-trading; and this is most effectually done by the occasional recurrence of periods in which there is a difficulty, or at least a diminished facility, in realising the best securities.

This, however, is not the general opinion; and those who contend for facilities to the commerce of the country, which in more homely terms means merely greater facilities to the merchants borrowing, ought to consider the relaxation of the usury law, which has allowed the Bank to raise its rate above 5 per cent., and at the advanced rate to discount the bills, provided they are of the prescribed description, to an unlimited amount, as a great boon to the commerce of the country. And I have not heard of any instance in which the working of the amended law has been otherwise than beneficial.*

* It has been stated, however, and with some plausibility, that the bankers generally have been benefited more than most other classes by the relaxation of the law, and by the rise in the bank rate of discount to 6 per cent., inasmuch as, but for this alteration, they must have submitted to make advances to their customers, that is to persons keeping accounts with them, at 5 per cent. per annum; whereas, ever since August last, they have charged at the rate of 6 per cent., except where confined by unexpired agreements to 5 per cent. There may be something in this view of the effect of the altered law, but not much, because the bankers would probably devote a less portion of their funds to the accommodation of their customers in the one case than in the other.

The class of persons who are supposed to have received the greatest benefit from the relaxation of the usury law, are the smaller description of tradesmen. Many of these, it has been observed, if the law had existed in its former rigour, must have failed, in consequence of being forced to sell at ruinous prices, upon the occurrence of the late pressure, from their not being able to raise money upon bills, not of first rate, but of fair security, at 5 per cent. Tradesmen of this description, by getting their bills discounted at 10 or 15 per cent. per annum, have in many instances been saved from making sacrifices by forced sales at 30, 40, and even 50 per cent., and have thus been preserved from becoming bankrupts.

There is likewise another class of tradesmen who, from what I can learn, have benefited by the relaxation of the usury laws. Those whom I allude to are stated to be tradesmen of fair character and good business, who, whether for casual orders for exportation, or for the purpose of getting into stock, having occasion to make purchases to some extent, would, if taking the ordinary credit from the manufacturer, have to pay what is called the long price, from which it is customary to make an abatement for money down, of 20, or, in some cases, 25 per cent. Now, on discounting a bill or borrowing on his personal security at 15 per cent. per annum, for six months, he would have to pay $7\frac{1}{2}$ per cent. as interest or discount against 20 or 25 per cent., which he would receive by prompt payment. Indeed, it is difficult to conceive how it should ever be supposed to be an advantage to a person having occasion for a loan, to prevent him from having the greatest competition of lenders, a competition which it is the necessary effect of a usury law to restrict.

But reverting to variations in the Bank rate of discount, and to Mr. Hume's eulogy on the uniformity

of the rate of 4 per cent. charged by the Bank of France, he says, —"While the Bank of England had "been discounting and lending at 3½ per cent., 4 "per cent., 5 per cent., and 5½ per cent., the Bank "of France, avoiding such variation and its evil con-"sequences, had continued its discounts at 4 per "cent. When commercial men in France wanted "money, they went to the Bank of France and got "discount without difficulty; the result of which "was, that the amount of commercial discount by "that Bank was much more in proportion to the "commerce of the two countries than that of the "Bank of England."* The advantage then arising from this greater facility and greater extent of discount, in proportion to the commerce, might be supposed to be displayed in the greater exemption from commercial discredit, distress, and failure in France; whereas, in point of fact, it appears that the sufferings of the commercial and manufacturing classes in France, during the last twelve months, have been greater than those which have been experienced in this country during the same interval.

The following are extracts from the *Times*, August 5. 1839.

"The number of bankruptcies in Paris declared between the 1st January and the 26th July, 1839, was 607. Among them were 93 joint stock companies, whose debts amounted to 148,000,000 francs, or nearly 6,000,000*l.* sterling. The number of bankruptcies between the 1st and 26th of last month was 87."

The same newspaper, Dec. 19. 1839, after giving the tenor of advices from France, adds, —

"We lament to observe by the French newspapers, and by our correspondence, that distress prevails in France to a most

* It might be imagined, from the stress here laid on the facility of discount at the Bank of France, that there was no such facility here. The simple meaning, however, of this difference of facility is the casual advance of 2 per cent. in the rate of discount by the Bank of England.

lamentable extent. We have already referred to the fact, that between 60,000 and 80,000 persons in Paris are obliged to have recourse to public bounty. But we learn that this fact suggests a very inadequate idea of the extent or poignancy of the misery that prevails, and which occasions to government, and to all who inquire into the subject, the most serious alarm for the consequences. That this melancholy state of things is not confined to the metropolis, we have shown by late quotations from the Lyons, and other provincial papers.

"We find in the *Capitole* the following paragraph, showing that in Normandy the sufferings of the inhabitants, already noticed, are unhappily on the increase.

"'It is not only in the manufacturing towns that distress prevails. The following is extracted from a letter dated Envermen, a small village in the department of the Lower Seine.

"'Misery increases daily in the rural districts. Many of the inhabitants, after exhausting their last resources, are obliged to beg. They only go out at night, and they traverse our village in bands. Some of them have not been satisfied to live on the charity of the people; but have broken open the ovens in several places, and carried away all the bread they contained.'

"'Every day,' says the same paper, 'the halls of the palace of the Bourse are crowded with creditors and men of business. twenty-seven failures, one of which was for a sum of 500,000 francs, have been declared since the commencement of the month, and the furniture of 150 other debtors has been sold in virtue of judiciary decrees. Finally, the workshops are every where closing, and misery is becoming general.'"

On what possible grounds, then, can it be contended that the difference in the management of the Bank of England, compared with that of France, can be considered as having been productive of commercial derangement in this country, while the derangement and distress in France have, according to all accounts, been so much greater?

And yet the writer of a long and most elaborate letter, signed "Gresham," in the *Times* of the 30th Dec. last (the editor of which very naturally disclaims participation in the writer's opinions), after inveighing against the system of the Bank of England, observes:—

"Let us not vaunt our boasted superiority in matters of banking. Is there a country on the face of Europe where the

true principles of banking are less understood, or, if understood, less acted upon? Talk of Hamburg, Paris, Amsterdam, or the confined influence of Europe operating upon our trade by an unfavourable course of exchange! Are they deranged in their operations when the exchange is in favour of England? Look at their banks and the nature of their currency, and tell us of the commercial panics, or even of the commercial embarrassments, that have convulsed continental Europe, as they have afflicted bank-ridden England with all its enlightenment on the principles of finance."

The rate of discount rose at Hamburg and Amsterdam to 7 per cent. for first-rate bills in September and October last; and yet the exchanges were in favour of both those places, accompanied by an influx of gold and silver.

It is impossible, as I apprehend, by any regulation of the paper part of the circulation, to prevent occasional, considerable, and inconvenient variations in the rate of interest. Of the causes which determine the rate of interest, I have given an explanation at some length in the former part of this work*; and I have only here to add, that the circumstances which have, since that explanation was given, developed themselves in our foreign commercial relations, not only with the United States of America, but with the rest of the world, are calculated to give additional force to the causes there enumerated in disturbing the rate of interest.

A country like this, having an extensive foreign commerce, extensive beyond any of which there is an example in history, and beyond any which the most sanguine anticipations could some years back have contemplated, as within the bounds of probability, must, by its intimate relations of capital and credit abroad, participate more or less in the tendency to over-banking and over-trading, and in the consequent revulsions which may occur in the countries with which we are commercially most

* Vol. II. p. 355.

intimately and most extensively connected. Considering, therefore, the enormous variations in the state of credit and in the rate of interest which have occurred in the United States of America, and the variations also which have taken place, although not on so extended a scale, on the continent of Europe generally, it ought surely not to be a matter of wonder that some variation, and an inconvenient degree of it, should have occurred in this country. That the Bank of England was not the originating cause of the recent rise in the rate of interest is abundantly clear. Whether, by a different management of the Bank as to the only element of its position on which it can operate, namely, its securities, the variations in the market rate of interest may not be moderated, is a question on which, before I conclude, I propose to offer some suggestions.

V. *Theory that the markets for commodities are directly influenced by every alteration in the quantity of money in the hands of, or emanating from, the Bank of England, or by every marked variation in the rate of interest.*

A principal part of the charges brought against the Bank has, however, been that, by at one time forcing out its paper, it has *caused* speculation, not only in securities, both domestic and foreign, and in shares, but also in commodities; thus artificially raising prices, and, by turning the exchanges against this country, driving out the bullion; while at another time, in order to save itself from the consequences of apprehended exhaustion of its treasure, it has suddenly and in a manner ruinous to the holders of produce, raised the rate of discount, and contracted the circulation, or, according to the modern phraseology, "put on the screw," and knocked down prices. A specimen of these sweeping charges in general terms, but in their utmost extravagance, has been given in an extract a few pages

back from a daily paper. The general impression under which those charges are made is, as I have before observed, a very prevalent one.

Mr. Hume, in his Speech, states the charges more specifically, and enters into historical details to make out his case. I have already had occasion to observe, that, beginning from 1819, the rise in consols in August, 1822, is considered by him as a proof in confirmation of his statement that an increase in the quantity of money had, in that interval, taken place. He then enters into an elaborate view of the state of the circulation, and of prices, and of trade, in the remarkable period from 1823 to 1826, and attributes to the mismanagement of the Bank the whole of the extraordinary fluctuations of that period. Thus, after enumerating the purchase of the dead weight in 1823, and the paying off of the dissentients in 1824, and advances to individuals, Mr. Hume adds, that "the Bank went on "making reckless advances in all these ways, until "they had depreciated the currency by excessive "issues of paper, and involved the country in all "the evils that followed. The consequences of "making money cheap, by this deviation from "principle, were the foreign loans' bubble schemes "and wild speculation that followed; and, in short, "such a state of things ensued as had never before "been seen in England." Into the particulars of that period I will not follow him, because I have already given, in a former part of this work, a full explanation of what appear to me to have been the causes leading to that state of things, and to the termination of it. I may have occasion hereafter to refer again to that period. In the mean time, I shall proceed to examine Mr. Hume's explanation of the manner in which the operations of the Bank are supposed to have originated speculations, and a consequent advance of prices, in 1835 and the early part of 1836.

It is requisite, however, on entering into this examination, to point out a very material difference which has arisen out of the circumstances attending the variations of the money market from 1836 to the present time, in the mode of accounting, by a reference to the management of the Bank, for all the fluctuations, both in the money market and in the markets for commodities, which have occurred in that interval.

Until the controversy to which the pressure on the money market in 1836–7 gave rise, there never seems to have been a question among the partisans of the currency theory, but that the only element in the position of the Bank, affecting the prices of commodities, was the amount of the circulation, that is, the amount of notes actually issued from the Bank. Accordingly, the amount of such issues, *including the notes under 5l.*, as it stood prior to 1820, has been adduced in comparison with the amount of the circulation at subsequent periods, minus the small notes, and without allowing for the substitution of sovereigns *, in proof of the alleged great contraction of the currency, and its necessary consequence, the great fall of prices. But the theory which referred to the circulation only, as affecting prices, could not be made available to account in any degree for the state of things in the commencement of 1836. The rise of prices of several articles of produce, and the speculations in joint stock companies, and the extraordinary credits given by the American houses, occurred coincidentally with a reduced and unusually low state of the circulation of the Bank of England. The average amount of the three monthly returns

* Without also allowing for the amount of bankers' deposits in the Bank of England. The sums so deposited were, previously to 1825, kept by the bankers in bank notes in their tills, and they then figured as a part of the circulation, which they now do not until withdrawn.

ending March 8. 1836, was 17,476,000*l.**, being lower than the average of any equal period in the three years preceding or succeeding; indeed, lower than it had been on an average of any three or four months in a long series of preceding years.

Mr. Hume takes no notice, accordingly, of the amount of the actual issues of the Bank, but enters into a statement of the circumstances attending the West India loan of 15,000,000*l.* in August, 1835, and after stating the various subsequent notices of the Bank, offering advances not only on the usual securities but also on stock, till the 15th April, 1836, when it discontinued its advances on stock, he adds,—"He had no "hesitation in pronouncing these different no-"tices to be so many puffing advertisements to "induce the public to apply for advances; and he "did not wonder that they should have had the "effect first to make money plenty and cheap, "which produced speculation, and then to *raise* "*the price of articles of all kinds*."†

* 1836,	Jan. 12.	-	17,262,000*l.*
	Feb. 9.	-	17,427,000*l.*
	March 8.	-	17,739,000*l.*

And the average of the last three months of 1835 had been but little higher, namely, only about 17,500,000*l.*

† Of the strange misconception by which the West India loan, and the consequent increase of the deposits in 1835, has been considered as constituting a great addition to *the quantity of money in circulation*, and thus causing wild speculations, the following extract from the speech of Mr. Williams, the member for Coventry, who immediately followed Mr. Hume in the debate, is a striking specimen.

That honourable member said,—"In 1835 there was a great increase in the issue of Bank of England notes, induced principally by the Chancellor of the Exchequer offering a higher interest than the worth of money in the market, for paying up the West India loan of 15,000,000*l.*, nearly all of which was paid up before scarcely any of the claims were adjusted:. thus interest was paid for a very large sum which was to lie idle. As an instance of the variableness of the circulation, I will state its amount at two periods of only six months from each other.

On the eagerness of the Bank to invest what the directors called the extra deposits in securities, by advances at a reduced rate of interest, to the money dealers, and on the impolicy of so doing, I have before remarked at some length, and to that extent I should agree with Mr. Hume. That the measures of the Bank at that period, viz. in 1835-6 had a most unfavourable influence, by competition with the bankers for securities, in adding to other causes of an undue extension of credit, is a point on which I have never entertained any doubt. But there is no reason whatever for believing that those measures had any direct influence on the prices of commodities, for, in point of fact, there was no advance of prices at that time that could, with any appearance of reason, be traced to anything like the operation of an increased quantity of money upon the markets for produce. There was no speculation, in the correct sense of the term, in commodities upon the spot at that time, with the single exception of the operations in the silk trade by one firm; operations which ended unfortunately. Among other proofs of the absence of such speculations (in London at least), it may be observed, that with the exception

In the amount of the circulation I include the deposits, which I consider, in time of pressure, to be the most dangerous to the Bank; as it is invariably seen, that when they begin to reduce their circulation, money becomes of more value, and the deposits are withdrawn; and when there is alarm, the deposits may be demanded in gold. On the 3d July, 1835, the total circulation was 29,269,000*l.*, stock of gold 6,219,000*l.*; and on the 14th January, 1836, the total circulation was 36,431,000*l.*, stock of gold 7,076,000*l.* This shows an increase of 7,162,000*l.* in the circulation, while the increase of bullion was only 857,000*l.* This vast increase was in the deposits, to make use of which the Bank was most profuse in advancing money upon all sorts of securities. Money soon became so abundant, that any amount might be obtained upon ordinary security at 2 per cent. interest. This caused wild speculations, &c." — *Mirror of Parliament.*

above mentioned, few of the houses that failed in 1836–7 were found to have any excess of stocks of produce on hand, nor did it appear that any of them had entered into speculations of the kind supposed: their overtrading was in credits abroad, attended with excess of exports and imports. The undue extension of credits in the trade with the United States of America, and with the East Indies and China, may indeed have operated, and did probably operate, indirectly, upon the prices of such manufactured articles as were applicable to the trade with those parts; and the raw materials of those manufactures experienced in consequence an increased demand and advanced prices; but other articles were wholly uninfluenced by the overtrading in those branches, and there was no traceable direct influence on the markets for commodities generally, in any way analogous to the effects attributable to an increased quantity of money. The fact of the progressive decline in the prices of corn to their lowest rate, during this very period, is quite decisive against the supposed direct influence of the increase of securities on the markets for produce.

By the plenty and cheapness of money referred to in the foregoing quotation from the Speech, must obviously be meant a reduction in the rate of interest, which is considered as the sole and sufficient cause of the rise of prices of articles of all kinds.

Mr. Hume then noticing the subsequent measures taken by the Bank to arrest the drain on its coffers by raising its rate of discount to 5 per cent. in the autumn of 1836, and by otherwise narrowing the facilities for borrowing, went on to say,—"The "subsequent disastrous bankruptcies of so many "merchants were only the results of the sudden "reduction of the paper circulation by the Bank, "and of the alarm thereby produced, when the

" directors found the bullion had almost left their " coffers." Now there was no reduction whatever of the Bank issues subsequent to the spring of 1836. And during the first six months of 1837, when the pressure on the money market was at its height, and when the greatest depression took place in the markets for those descriptions of produce which had been raised by the demand from America, the issues of Bank notes were on an average full 500,000*l.* higher than they had been in the spring of 1836, when all had been excitement and prosperity. As to the bankruptcies, the most exceptionable of the measures adopted by the Bank at that time were expressly with a view to support commercial credit, and to avert or mitigate those failures. The reduction in the amount of the deposits which then occurred was the natural effect of the rise of the rate of interest, and the Bank was of necessity perfectly passive under that reduction. With regard to the securities, they would be of no avail for the support of Mr. Hume's position, because the amount of them in the first six months of 1837, being the period of the greatest pressure, was rather higher than it had been in the first six months of 1836, before any severity of pressure had been felt.

The only measure of the Bank, therefore, which, according to Mr. Hume's view, can be considered to be chargeable with the commercial reverses in 1836–7, imputed to it, is that of having raised the rate of discount.

So again with reference to the more recent instance of disturbance of the money market, Mr. Hume seems to consider that the Bank, by its operations in varying the rates of discount, and the terms of its advances on loan in 1838 and 1839, had been the cause not only of disturbing the money market and turning the exchanges against us, but had caused speculation; of which he afterwards gives

instances, in the advance of cotton and corn. For, after remarking upon the several notices issued by the Bank in the latter part of 1838, and the first six months of 1839, he observes (p. 16.),—

"*These were examples* of the fluctuations and "irregularities in the rates of discount, and in the "amount and value of money, which had brought "about the present existing commercial money "difficulty. *It was the excessive issue of paper* "*that, by injudicious cheapening of money and en-* "*couraging of speculation, had turned the exchanges* "*against us, as they still continued.*"

The theory which ascribes a direct influence to the rate of interest on the markets for commodities, has been very much favoured by the modern phraseology which I have noticed, of applying the terms of abundance and scarcity of money, and the consequent cheapness and dearness of money, or a low or high value of money, to a fall or rise in the rate of interest, as in the quotation just given from Mr. Hume's Speech, where he speaks of the effect of the injudicious cheapening of money in encouraging speculation. As this theory has had, and may again have (notwithstanding the degree in which it has been shaken by the recent and actual state of the markets for produce), considerable practical influence, it may be worth while to enter into a brief investigation of the grounds for it.

The commonly received opinion is, that a low, and especially a declining, rate of interest operates necessarily as a stimulus to speculation, not only in government stocks and in shares both at home and abroad, that is in both British and foreign public and private securities, but also in the markets for produce.

With regard to speculations in securities and in shares, the inducements to enter into them, whether as investments or with a view to resale, must necessarily be influenced by the rate of interest

as a primary consideration; and such investments may be speculative or not, according to circumstances; but it is with reference to the influence of the rate of interest, and of the operations of the Bank on speculations in produce, that I am more especially disposed to question the prevailing opinion.

The term speculation, in its widest sense, is, as I have before observed, applicable to nearly all transactions of purchase or sale in anticipation of the contingency of realising a profit as the result of such transactions. But this is not the sense in which the term is meant, when speculation, in the obnoxious meaning of the term, implying an undue and excessive tendency to raise prices, is referred to as having its rise or origin in an enlargement of the circulation, or in a great facility of the money market, by which is understood a high state of commercial credit, and a low rate of interest.

Speculation, in this obnoxious sense, when referring to the markets for produce, is understood to apply to purchases made either by persons in their regular trade or occupations, as merchants and dealers, but to a much larger amount, and beyond the usual proportion to their capital and credit, or, as is more commonly meant, by persons not habitually and regularly dealing in and conversant with the articles so purchased; in either case causing a marked and undue rise of price, a rise not warranted by a fair and sober view of the proportion of the supply to the computed rate of consumption. That the speculations here meant suppose that purchases are made at prices beyond those which would be warranted by a fair view of the proportion of the supply to the rate of consumption, and that such prices being artificial, must eventually be succeeded by loss and discredit, is evident: for if the prices are justifiable upon a fair view of supply and demand, they cannot be

said to have their origin in an undue expansion of money and credit. It cannot, on such occasions, be imputed to the regulation of the issues by the Bank, or to a low rate of interest from any other cause, that they have produced undue speculation, the anticipation having been by the supposition, on sufficient grounds, and the result having been, as it must in such case be, beneficial to the public, by limiting the consumption or increasing the supply, or doing both, and thus preserving a due proportion, which would otherwise have been disturbed. The speculations, then, which are supposed to be detrimentally induced, or *stimulated*, by the facility of borrowing money for the purpose of purchasing commodities, must apply to persons who, it is assumed, make purchases with imperfect information, and upon insufficent grounds. There are, doubtless, persons who, upon imperfect information, and upon insufficient grounds, or with too sanguine a view of contingencies in their favour, speculate improvidently; but their *motive* or *inducement* so to speculate is the opinion which, whether well or ill founded, or whether upon their own view or upon the authority or example of other persons, they entertain of the probability of an advance of price. It is not the mere facility of borrowing, or the difference between being able to discount at 3 or at 6 per cent., that supplies the *motive* for purchasing, or even for selling. Few persons of the description here mentioned ever speculate but upon the confident expectation of an advance of price of at least 10 per cent.*; the in-

* There are in most of the markets, of any extent, for produce dealers who buy on the spot, with a view to resale in the same market, for a profit under 10 per cent.; but these persons, a very useful class in equalising prices, come properly under the designation of jobbers, who, like those on the Stock Exchange, are commonly satisfied with a small turn of the market on each of their operations. In the daily advices of the state of the great market for raw cotton, in Liverpool, it is commonly men-

stances are rare in which an advance to that extent would hold out any inducement to speculate, in the sense of the word here assumed. Take wheat for example, one of the most usual and prominent of the articles of produce for speculation, and at an average price of about *50s.* Now I never heard of any person characterised as a speculator, not a jobber, who would think the risk of loss compensated by so small an advance as *5s.* per quarter, looking to hold it for three months. But the utmost difference between the rate of discount of 3 per cent. and 6 per cent., namely, 3 per cent. per annum, for three months, would on a quarter of wheat amount only to 4½*d.* per quarter, a difference which, I will venture to say, never induced or deterred a single speculative purchase.* But, given the force of the motive, the extent to which it can be acted upon is doubtless affected as regards persons who can buy only on credit, or who must borrow in order to be able to buy, by the greater or less facility of borrowing. If, however, the mere facility of borrowing were the determining motive to purchase, there seems to be no reason why one commodity should be preferred to another; and the facility of raising money at a low rate of interest might be supposed to induce persons to enter into all markets indifferently as speculative purchasers,

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tioned that certain quantities have been taken on speculation, or by speculators; but this means only the purchases by the ordinary intermediate dealers, as contra-distinguished from the purchases made by the manufacturers.

* As regards speculation in corn, it is impossible that a negative more complete can be afforded of the universally received theory of the effect of an abundant circulation and a low rate of interest in stimulating to speculation, than the fact, that in the long interval of three entire years, 1833, 1834, and 1835, there was a total absence of anything like speculation, while wheat had been falling progressively from *60s.* to *36s.* Contrast this fact with Mr. Hume's statement, that it was speculation from abundance of money that raised the price of wheat in December, 1838, from *73s. 6d.* to *81s. 6d.*!

with a view to resale, upon no reasonable ground for expectation of a rise of price. The persons who are supposed to speculate so foolishly must be presumed to have some property, and to be holders of marketable securities; for it is not likely that they should, without having property or the reputation of it, and without good securities, be able to borrow largely on mere personal credit, for the purpose of making purchases of goods on speculation. Accordingly speculations of this kind rarely take place to any extent worthy of notice, as being in any way connected with the state of the circulation.

But while, upon general grounds, there is so little reason to suppose that the mere facility of raising money at a low interest forms a sufficient motive for persons having marketable securities, or being in good credit, to borrow for the purpose of purchasing commodities with a view to resale, or that lenders would to any extent be found to advance largely on slender security; a reference to the state of the money market, and of the produce markets at particular periods will show that, in times when the interest of money was particularly low and falling, and when commercial confidence was in the most perfect state, the prices of the largest classes of produce were low, and some of them falling, without the slightest tendency to anything like a general spirit of speculation. Throughout the whole of the interval from 1820 to the close of 1822 the rate of interest was falling, and in 1822 the market rate was nearly as low as it has ever since been; but in all that interval there was a tendency to a fall in the markets for produce. I allude more especially to the interval of full three years, from the summer of 1832 to the summer of 1835, during which interval, with the exception of a very short-lived speculative advance, lasting only four or five weeks in 1833, on purely mer-

cantile grounds, in colonial produce, there was nothing like what could be called extensive speculation in commodities beyond isolated instances to which every market for produce is occasionally subject. At that period, any forced operation of the Bank, with a view to extend its circulation, could have had no effect whatever upon prices. Mr. Samuel Gurney, whose practical acquaintance with the working of the money market is assuredly not surpassed by that of any other individual, delivered a very clear opinion on this point in his evidence before a Committee of the House of Commons, in 1833, on Manufactures, Commerce, and Shipping.

"269. Suppose there are 50,000,000*l.* in circulation now, and that the Bank were to issue "to-morrow 5,000,000*l.* more, do you think prices "would ultimately rise in a corresponding pro-"portion with that increase of money?—If the "Bank of England were at this time to add "5,000,000*l.* to their circulation, it would affect "prices only remotely; what would be its ope-"ration? The effect of it would be, that the "bankers would have more bank notes than they "could use, and would lock them up in their "tills; such addition would not come into actual "circulation, at least no more than the transac-"tions of London cause a demand for. And "while the transactions of London are abundantly "supplied, as is the case at the present time, the "effect of an additional 5,000,000*l.* would be, that "it would remain inoperative, or, rather, idle, in "the tills of the bankers. I do not believe that "such an addition to our circulation would affect "prices at this time.

"Would it not encourage speculation?—There "is every ability to speculate. As the circulation is "now, individuals can get as much money as they "please at 2½ per cent.; nobody omits going

"into a speculation now because he cannot get "the means; the means are readily procured, "provided it is a solid and safe speculation.

"If the bankers found themselves in possession, "in consequence of a large issue of notes from "the Bank of England, of a larger quantity of "circulating medium than they had before, would "they not be induced, under those circumstances, "in order to make use of their circulating medium, "to advance it upon slighter security; and would "not that have a tendency to increase speculation, "and therefore to raise prices?—The banking "houses in London are conducted with so much "prudence at this time, they would not, under "such circumstances, make advances on slight "securities.

"Do you believe that an addition of 5,000,000*l.* "to a previous circulation of 50,000,000*l.* would "have no effect upon prices ultimately?—I cannot "give an opinion as to the ultimate remote result*,

* Mr. Gurney very properly guards himself in his answer to the question, whether an addition of 5 millions to the circulation would not have an effect upon prices *ultimately*, by saying "I cannot give an opinion as to the ultimate remote result." Of course he could not; for if the addition were the consequence of an influx of gold which was to remain permanently in the country as our share of a general increase from the mines, the prices of all articles, other things remaining the same, would rise in the proportion which the 5 millions should bear to the previous circulation. There can upon this point be no difference of opinion. A permanent increase of this kind, in whatever way it were introduced, would enter into and pervade all the channels of circulation, reaching ultimately wages, and thus come into contact with every description of commodities. And a government inconvertible paper, issued in direct payments not on terminable securities, and not returnable on the issuing bank, would also, if not discredited, enter into and pervade all the channels of circulation, while the increased currency and the consequent advance of prices being beyond the bullion level, would be marked by a difference of exchange, and by an agio on gold and silver.

If, indeed, 5 millions of bank notes were by some magical operation to be so issued by the Bank of England, that (sup-

"but I am confident that should the Bank of "England make such addition to its circulation, "artificially, at this time, it would remain inope-"rative, the transactions of the town not requiring "it. It would remain wholly unused in the bankers' "tills.

"When you speak of the circulating medium, "do you include that which is locked up in the "bankers' tills?—The bank notes which are locked "up in the bankers' tills do not, in fact, act as a "part of the circulating medium. No legislative "measure or forced procedure of the Bank can "increase, under that view, the amount of money "actually in circulation."

Under the circumstances here supposed, the bankers, instead of locking up the notes in their tills, would probably return them to the Bank as deposits.

I have extracted this evidence of Mr. Gurney

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posing merely for the illustration that 1*l.* notes were in circulation) 5 millions of persons of the working classes depending for the means of their expenditure on their weekly wages, should each, on rising in the morning, find himself richer than when he had lain down, by discovering a 1*l.* note in his pocket, the effect would be great and sudden upon prices. Each probably of these 5 millions of persons would immediately lay it out in purchases of articles constituting the necessaries and luxuries of those classes. And the prices consequently of food (particularly the higher descriptions of it, such as meat), coarse clothing, beer, spirits, tobacco, would rise considerably. All the markets for those articles would exhibit great briskness of demand. And as the consumption would thus outrun the ordinary supply, there would be a disposition among the producers and importers to anticipate a continuance or increased ratio of such demand. Speculation, overproduction, and overtrading, would be the consequence. But the cause of increased consumption being by the supposition not permanent, the increased supplies would prove to be beyond the demand, and losses, and failures, and discredit, would follow. And the currency having, by the rise of prices, become redundant, the paper would return upon the Bank for gold for exportation. Thus after an intermediate disturbance, the prices and the circulation would be restored to their former level.

for the purpose not only of showing his opinion, and the reason for it, of the powerlessness of the Bank, under certain circumstances, of adding to the quantitity of money in actual circulation, but of adducing his authority for the fact that the rate of interest in 1833 was so low, and that the facility of raising money upon anything like good security was so great, as to allow the fullest scope for persons entitled to credit entering into any speculation that offered a fair prospect; but that the low interest did not operate in inducing the bankers to make advances on slight securities. Nothing, indeed, can be more opposed to historical evidence than the assumption that speculations in commodities have been produced by mere facility of borrowing. The most memorable speculations in commodities, namely those in colonial produce in 1796 to 1798, and in nearly all descriptions of produce in 1808, and in articles of export in 1814, took place when there was anything but facility of credit. The instance of the speculations in commodities in 1824-5 is that chiefly from which the supposed connection with the state of the circulation is inferred. I have before shown, that in the origin of most of those speculations, there was sufficient motive, without supposing any influence or stimulus from the Bank circulation, although the coincident enlargement of it allowed, perhaps, a wider and longer range to them.

The speculative advance of prices in 1824–5 was not at all to be compared to that which took place, in the anterior periods referred to. But there was a feature in some of the speculations in 1825 illustrative of a state of mind among the operators, which, although of not unfrequent manifestation in the stock and share markets, has been of very rare occurrence in the markets for produce. There were some few articles, almost exclusively spices, which were the subject of successive purchases at advancing prices,

without any intermediate delivery of the article, by persons, each of whom was conscious that the price at which he was induced to buy could not be long maintained, being greatly beyond the real value; but trusted either to his own observation, or to the assurance of the brokers, or other parties interested, that he could not fail of finding persons still more credulous than himself to take it off his hands at a still higher price. Transactions of this extravagant description can only be carried on through the medium of a delusion on the part of the great bulk of the operators, which has not been improperly designated as a *mania*. This term, as being descriptive of such superlative extravagance, implying an aberration of intellect, was first applied, I believe, to the case of the remarkable speculation in Tulips, thence called Tulipomania, which occurred in Holland in the 17th century. As the accounts of that extraordinary delusion, and its attendant circumstances, are at this time probably little known, they may be worth here inserting, as given in the following extract from vol. xiv. of the *Quarterly Review*, in an article on "A History of Inventions," by John Beckmann, professor in the University of Gottingen: —

"It is well known that in Holland the tulip "became, about the middle of the seventeenth "century, the object of a trade unparalleled in "the history of commercial speculation. From "1634 to 1637 inclusive, all classes in all the "great cities of Holland became infected with "the tulipomania. A single root of a particular "species, called the viceroy, was exchanged, in "the true Dutch taste, for the following articles: "— 2 lasts of wheat, 4 of rye, 4 fat oxen, 3 fat "swine, 12 fat sheep, 2 hogsheads of wine, 4 tuns "of beer, 2 tons of butter, 1000 pounds of cheese, "a complete bed, a suit of clothes, a silver beaker; "value of the whole, 2500 florins. The account "of this tulipomania is so curious, and, we be-

" lieve, so just, that we shall make no apology for " extracting it.

" ' These tulips afterwards were sold according to the weight of the roots. Four hundred perits (something less than a grain) of *Admiral Leifken*, cost 4400 florins; 446 ditto of *Admiral Vonder Eyk*, 1620 florins; 106 perits *Schilder*, cost 1615 florins; 200 ditto *Semper Augustus*, 5500 florins; 410 ditto *Viceroy*, 3000 florins, &c. The species *Semper Augustus* has been often sold for 2000 florins; and it once happened that there were only two roots of it to be had, the one at Amsterdam the other at Haarlem. For a root of this species one agreed to give 4600 florins, together with a new carriage, two grey horses, and a complete harness. Another agreed to give for a root twelve acres of land; for those who had not ready money promised their moveable and immoveable goods, houses and lands, cattle and clothes. The trade was followed, not only by mercantile people, but also by the first noblemen, citizens of every description, mechanics, seamen, farmers, turf-diggers, chimneysweeps, footmen, maidservants, old clothes women, &c. At first, every one won, and no one lost. Some of the poorest people gained, in a few months, houses, coaches, and horses, and figured away like the first characters in the land. In every town some tavern was selected, which served as a 'change, where high and low traded in flowers, and confirmed their bargains with the most sumptuous entertainments. They formed laws for themselves, and had their notaries and clerks.' (Vol. i. p. 43.)

" The Professor observes that these dealers in " flowers were by no means desirous to get pos- " session of them; no one thought of sending, " much less of going himself, to Constantinople to " procure scarce roots, as many Europeans travel " to Golconda and Visiapour to obtain rare and " precious stones. It was, in fact, a complete " stock jobbing transaction. Tulips of all prices " were in the market, and their roots were divided " into small portions, known by the name of *perits*, " in order that the poor, as well as the rich, might " be admitted into the speculation; the tulip root " itself was out of the question; it was a non- " entity, but it furnished, like our funds, the sub- " ject of a bargain for time.

" ' During the time of the Tulipomania, a speculator often offered and paid large sums for a root which he never received,

and never wished to receive. Another sold roots which he never possessed or delivered. Often did a nobleman purchase of a chimneysweep tulips to the amount of 2000 florins, and sell them at the same time to a farmer, and neither the nobleman, chimneysweep, nor farmer had roots in their possession, or wished to possess them. Before the tulip season was over, more roots were sold, bespoke, and promised to be delivered, than in all probability were to be found in the gardens of Holland; and when *Semper Augustus* was not to be had, which happened twice, no species, perhaps, was oftener purchased and sold. In the space of three years, as Munting tells us, more than ten millions were expended in this trade, in only one town in Holland.' (Vol. i. p. 46.)

"The evil rose to such a pitch that the States "of Holland were under the necessity of inter-"fering; the buyers took the alarm; the bubble, "like the South Sea scheme, suddenly burst, and, "as in the outset all were winners, in winding "up very few escaped without loss."

The most remarkable circumstance attending the extraordinary state of things here described, is that it should have lasted so long; and I confess myself to be utterly at a loss for a satisfactory means of accounting for the duration of the speculation; for as to the fact of the existence, and consequently of the possibility, of such delusion on the one hand, practised upon by such deception on the other, we have abundant exemplifications of it in subsequent periods; although, except in the instance of one or two of the produce markets in 1825, it has been chiefly displayed in the share and stock markets.

The South Sea scheme, and other bubble projects in 1720, form a striking æra in the history of the extravagance of which, in cases where, from the opening of new fields for enterprize, experience is not applicable, the human mind is susceptible. On a lesser scale, although of more frequent occurrence, have been the speculations of modern times in projects by joint stock companies and in foreign loans. Extravagance of speculations of this kind

was exhibited two years ago, on a large scale, on the Bourse at Paris, in asphalte and railway shares. Such occasional excitement and delusion, under the influence of which interested parties have succeeded in finding dupes to bid one over another, does not seem to depend upon any particular state of the circulation, or to require, as a condition of its existence, a fall in the rate of interest. In reference to the case of the Tulipomania, there is nothing that I am aware of in the financial or monetary state of Holland, at that time, to account for it; nor if there was, to explain why the folly was not exhibited in other articles of produce.

In the case of the memorable South Sea bubble in this country, in 1720, the presumption against any influence of the state of the circulation in producing it is alluded to, and very judiciously remarked upon, by Mr. Norman, in the following extracts from his evidence before the Bank charter committee in 1832.

"2543. If, for instance, it appears there was "at the period of 1825 a great increase in the "amount of paper circulating in the country, and "there was, contemporaneously with that, a great "rise in prices generally throughout the country, "do you attribute the rise of prices on that occa-"sion solely to the increased issue of paper, or do "you think that it was in proportion only to the "increased issue of paper?—I certainly should "not either think that it was wholly owing to the "increased issue of paper, nor do I conceive that "it was in exact proportion to the increased issue "of paper. I consider that in 1825 a sort of moral "epidemic prevailed, and that you might have the "same extent of currency, perhaps ten times over, "without an equal degree of commercial excite-"ment and subsequent distress. I do not con-"sider that at all times even a similar amount of "currency will perform exactly a similar amount

"of work; because there may be, in periods of "great commercial excitement, a considerable in-"creased velocity of circulation.

"2544. Do you consider, then, that a spirit of "speculation, engendered by particular circum-"stances, at any particular time, may cause a great "rise of prices entirely independent of any increase "in the issues of paper money?—I think there "might be a spirit of speculation abroad in the "first instance, unconnected with an increased "currency; and when that speculation had raised "prices, an increase of the circulation would pro-"bably follow, but I do not think it should neces-"sarily, though it does sometimes, precede it.

"2545. Therefore a spirit of speculation may "be engendered, and there may be a rise of prices, "and that rise of prices may be followed by an in-"crease of issue as a necessary consequence, but "the original rise of prices may happen entirely "apart from any increase of the circulating me-"dium, and owing solely to the speculation itself? "—Decidedly so; suppose the case of new mar-"kets opened.

"2546. Are you at all acquainted with the state "of things in 1720, at the time of the bubble?—"It is stated in Mr. M'Culloch's *Dictionary of* "*Commerce*, that the

"Bank circulation in	1718	was about	1,829,000*l*.
—	1721	—	2,054,000*l*.
—	1730	—	4,224,000*l*.

"The increase, then, from 1718 to 1721 was 225,000*l*., or about "75,000*l*. per annum; and from 1721 to 1730 it was 2,170,000*l*., "or about 241,000*l*.

"Thus the bubble year, 1721, was preceded by "a low, and succeeded by a high, rate of increase, "the latter unattended by any commercial excite-"ment; there is, then, no necessary connection "between a morbid spirit of speculation and a "great augmentation of Bank issues. We might,

"perhaps, for all practical purposes, consider the "circulation of the country in 1721 to have been "metallic; nevertheless, at that time the excite- "ment that prevailed seems to have much sur- "passed what we saw in 1825."

It may reasonably be supposed, that although a full circulation and a low and even a falling rate of interest do not actually generate, they may contribute to extend and keep up, such a state of delusion, or, as Mr. Norman emphatically designates it, a moral epidemic. And, doubtless, such a state of the circulation and of the rate of interest is calculated to favour all projects for investment of money which hold out the prospect of increased income to the subscribers. It favours also, although it does not originate, building and land speculations, the facility of borrowing being essential to the extension of such speculations.

When the market rate of interest happens to have fallen, if there has not previously been an equivalent rise in the price of government securities, there may be such a rise of the public funds as may have the character of speculation; on such occasions, the anticipation of the prices to which they ought to attain, may be an exaggerated one, but the foundation for the rise would substantially exist in a tendency to an adjustment of the relative value of different securities for investment. On the other hand, a rise in the market rate of interest, more especially if combined with political apprehensions, has a necessary tendency to reduce the prices of all securities, quite independently of any forced contraction of the circulation by the Bank. In truth, "the putting on of the screw" by the Bank, which is the modern phrase for raising the rate of discount, is nothing more than the Bank's following the rise of the market rate; the main well-founded charge against that establishment having been, not that it raised the rate unnecessarily or too soon, but that it did

not follow that rise sufficiently soon, nor with sufficient effect.

It must be quite evident that, as a fall in the rate of interest favours projects which hold out to subscribers the prospect of an improved income, so a rise in the rate of interest is necessarily attended with a fall in the value of projects in actual operation, and with discouragement to the formation of new ones.* But these effects of variations in the circulation and in the rate of interest, on the prices of securities, have no analogy in the markets for commodities.

If there exist grounds for speculation in goods, a coincident facility of credit *may*, but will not *necessarily*, extend the range of it. It is not easy, for instance, to imagine that the speculations in Tea would have gone to greater length, in a state of the utmost facility of credit, and of the easiest state of the money market, than they have recently done, while the money market was in its most contracted state. Allowing, however, that, *given the motives* for speculation, a facility of credit, and more especially a tendency, by abuses of banking, to an undue extension of it, may admit of a greater range to speculation, it will be found that the prices of commodities are little, if at all, affected by temporary alterations in the rate of interest; whilst a *permanent* increase of the rate of interest would have effects on the prices of produce directly opposite to those which are commonly supposed. A *permanent* rise of 2 per cent., or even 1 per cent. per annum, would ultimately raise the prices of commodities, inasmuch as it would increase the cost

* At the same time, if any event in politics or in trade should occur, affording grounds for *anticipating* a great alteration of prices, an immediate speculation will arise, in despite of a great coincident pressure on the money market, as witness the speculation, before referred to, in September last in Spanish and South American securities.

of production, especially of articles into the production of which machinery entered.

Although in some of the foregoing remarks I have blended speculation with overtrading, as having in some points of view the same tendency, namely, that of an abuse of credit; and although, in common language, each may be resolvable into the other, there are some distinctions between them which are not without their importance in practical application.

Speculation does not necessarily involve overtrading, inasmuch as it may, in some cases, operate as a disturbing cause upon prices, without any undue extension of credit; while it is of the very essence of overtrading to be connected with engagements on credit in undue and excessive proportion to the capital requisite to provide against adverse contingencies. The instances of any general prevalence of overtrading in this sense of the term, by speculative purchases of produce with a view to resale on the spot, to such an extent as to entail, by their failure, any material derangement of commercial credit, have of late years been of very rare occurrence. In 1825 * the transactions of that kind, wild as some of them were, and disastrous to the individuals concerned, were only among the minor causes of the great depression of the exchanges, and the general derangement of the circulation at that period. The main causes, as I have elsewhere described, were overtrading, in the more distinct sense of the word, both in imports and ex-

* In the references which are frequently made to prices, and the state of the circulation in 1825, it is commonly assumed that the rise in the prices of produce was, strictly speaking, *general;* and thence the inference that the cause must have been general. But a material feature in that view is overlooked, which is, that the corn market and the markets for provisions were not in the slightest degree under the influence of the spirit of speculation which prevailed in some of the other markets for produce.

ports of commodities, and in the transmission of capital, in great part borrowed, for loans to the states of South America, and for advances in mining schemes. There were at the same time in progress loans to some of the governments on the continent of Europe; these were probably with a less proportion of borrowed capital, and therefore might not come under the description of overtrading, but they co-operated with other causes in depressing the exchanges.

The overtrading in commodities was not stimulated or induced by the facilities of the money market, but by the very low stocks of all the raw materials of our manufactures at the close of 1824, which gave occasion for orders to be sent out for purchases abroad, to an extent and at prices which the event did not justify, and in such undue proportion of borrowed capital, that by the fall of markets here, the bills for the payment of those purchases, while they depressed the exchanges, could not be fully met.

The facilities of the money market which existed in 1824 doubtless favoured this overtrading in imports; but it was still more distinctly in speculative exports that the state of banking at that period favoured overtrading. The Scotch banks, especially those of Glasgow, were considered as being greatly accessary in ministering to the spirit of adventure which then prevailed in shipments to foreign parts, by advancing a very large proportion of the amount on long-dated bills. Those shipments were mostly for account of the exporting manufacturers, or merchants, possessed of comparatively slender capitals; so that in the first instance a large mass of bills was created, and as the returns in most cases were not forthcoming when the acceptances became due, the Banks refusing to renew the bills, the acceptors of course failed. In England a good deal of the same over-

trading in exports took place, although not perhaps to so great an extent as in Scotland. The general exports were, at that time, on a very extended scale, but being in a great proportion for account of the shippers, furnished no immediate means of payment for the large imports both of commodities and securities in 1825, which therefore drained the Bank of England; the returns however were forthcoming, with considerable loss, in 1826; and thus, with the diminished imports, caused the tide of the metals to set in so strongly as it did after the close of 1825. Since that period, the only instance of overtrading so extensive as in its consequences to disturb or derange commercial credit, has been in the case of the American houses in 1836–7. In fact, with this exception, there has not been, since 1825, any difficulty or disturbance of the money market till the recent instance of it, which is the subject of the present discussion.

It may appear to my readers that, admitting the truth of the position for which I am arguing, of the absence of any immediate influence of variations in the amount of the circulation, and in the rate of interest on the markets for produce, a disproportioned importance has been attached to it in this discussion. But the point in question is of more importance than at first appears. It not only enters as an essential element into all discussions which have for their object to elucidate the causes of the most striking variations which the state of agriculture and trade have undergone in former times, but has formed a prominent part in the views which have been taken of the causes and probable consequences of the recent pressure on the money market, and of the means of obviating a recurrence of them. It has been considered that a state of general prices of commodities, including corn, above the level of prices abroad, has been the main cause of the depression of the exchanges;

and that no rectification of these was likely to be accomplished without bringing down the prices of commodities, so as to cause a demand for export. Whereas, in truth, the prices of securities, with the price of corn, formed the whole feature of the case. And if the Bank had earlier attended to the importance of reducing the prices of securities, instead of looking to the prices of commodities, the circulation would have been in a much more satisfactory state.

Results of the examination of Mr. Hume's Speech.—In the foregoing examination of the prominent points of the charges brought against the Bank, I have endeavoured to show,—

1. That the practice of using the terms abundance and scarcity, and consequent value of money, indiscriminately, for value in use and value in exchange, is a pervading source of error throughout the whole of the reasoning by which the several inferences are drawn, and by which the general conclusion is sought to be established.

2. That the blending of the amount of deposits with the amount of bank notes issued, as coming under the single designation of paper circulation, emanating from the Bank of England, leads to an incorrect view of the working of the system.

3. That a reference to the amount of securities, as *a criterion of the quantity of money*, leads to the most palpable incongruities, a striking instance of which is exhibited in the consequence ascribed to the increase in the securities by upwards of 3 millions in the first six months of 1839, namely, that of having made money cheap, and caused speculations; the criterion so assumed, and the consequence ascribed to the increase of securities, involving the glaring inconsistency of being in direct variance with the criterion equally laid down,

and the consequences ascribed to it, of the amount of the liabilities.

4. That the market rate of interest is subject to occasional variations which it is not in the power of the Bank to control; although, for short intervals, the regulation of its securities may have some temporary effect in increasing or diminishing, and, at any rate, in accelerating or retarding, a pre-existing tendency in either direction.

5. That there is no foundation in fact or in reasoning for the theory which ascribes a necessary and direct influence to the occasional expansion or contraction of the Bank issues on the prices of commodities, by generating a spirit of speculation on the one hand, or by compelling a resort to forced and ruinous sales on the other. And that, in truth, there has been no remarkable disturbance of the markets for produce during the two last years; the articles of corn, cotton, and tea, which have notoriously been under the influence of peculiar circumstances, excepted.

6. If I have succeeded in my endeavours to prove the foregoing positions, it will follow that, as they embrace the whole of the grounds on which Mr. Hume has proceeded, in stating his views on the management of the currency by the Bank, he must be considered as having failed of establishing his conclusion to anything like the extent that he has proposed, namely, "That the evils which the commercial and manufacturing interests have experienced are attributable chiefly, if not entirely, to the conduct of the Bank."

CHAP. IV.

ON THE SEVERAL ALTERATIONS PROPOSED IN THE MANAGEMENT OF THE CURRENCY, WITH A VIEW TO REMEDY THE EXISTING DEFECTS.

It is an unfortunate consequence to the Bank of England, of the position of difficulty in which it suffered itself to be placed on the recent occasion, so soon after one similar in kind, although not so striking in degree, had occurred not many months before, that not only among persons connected with banking establishments, jealous of, and seeking to participate in, the privileges hitherto enjoyed exclusively by that institution, but among many, and so far as can be judged from published and publicly expressed opinions, among a vast majority of those who, without any immediate pecuniary interest, attend to and reason upon the subject, the continued existence of the privileges of the Bank of England beyond the period to which they are limited is looked upon as an evil not to be doubted, and not to be endured.

I have never been in the habit of attributing "absolute wisdom" to the management of the Bank of England; on the contrary, I have endeavoured to point out, in a spirit of fairness, what appeared to me to have been errors in the regulation of the currency, so far as it has depended upon the Bank. One of the sources of those errors has been the too great sympathy of the directors with the claims of the mercantile community, such sympathy being, moreover, but too consistent with the interests of the proprietors. And such being the source of their errors, I very much suspect that the mercantile and manufacturing interests, which, judging from

the pamphlets on the subject, and from the tone of the public press, and from speeches both in and out of parliament, manifest a decided hostility to that establishment, will find themselves woefully mistaken in the anticipation of benefit which they look to derive from so great a change of system as that of which they seem desirous. They (I mean the bonâ fide objectors, and not those who expect to be admitted to a participation in the advantages of issuing paper money within the circle now exclusively occupied by the Bank of England) remind me of those sagacious individuals who imputed all the evils which they felt to the too lax reign of King Log, and made a discovery of the errors of their reasoning in the greater evils which they experienced under the more rigid rule of his successor.

The specific charge of mismanagement brought forward against the Bank of England is, that by arbitrarily making money too cheap at one time, and too dear at another, or, according to more ancient but somewhat more correct phraseology, by depressing the rate of interest at one time and raising it at another, with a mere view to the interests of their proprietors, the prices of commodities and the state of credit are unnecessarily exposed to all the fluctuations consequent upon occasional excessive expansion and contraction of the circulation. I have endeavoured to show how little foundation, in fact, there is for these imputed consequences of the Bank system; the main objection to the management being the danger to which the circulation has been exposed by it, of a suspension of its convertibility; against the recurrence of which danger there is, under the present system of regulation, if regulation it can be called, too little security.

If greater security against the recurrence of the danger of suspension, which we have so narrowly

escaped, cannot be provided consistently with the maintenance of the existing establishment, in its main functions, of which the most important is that of being the sole source of issue of paper money within the circle to which its exclusive privilege extends, there ought to be no hesitation in taking early measures with a view to the substitution of some other system. Of any system so substituted, the primary object should be to afford the fullest security for the preservation, under any possible circumstances, of the present standard of value, or, in other words, of the constant and perfect convertibility of the paper into gold, according to the existing Mint regulations.

But the machinery of the Bank of England is so excellent, and the working of it, in all its details, so perfect; it is an institution which, in its daily operations, is so interwoven with the habits of the mercantile and banking and trading classes of the community, that it will, in my opinion, be found to be deserving of serious consideration, whether, consistently with the preservation of the present establishment and with the maintenance and, if possible, an extension of its main function of being the principal, if not the sole, issuer of paper money, it is not susceptible of such improved regulation as may afford a sufficient security against the contingency of a predicament like that in which it has recently suffered itself to be placed.

Section 1.—*On the proposed total Separation of the Business of issuing Bank Notes from that of the Deposits, and other mere Banking Operations.*

Among the able publications which appeared on the subject of the currency on occasion of the pressure on the money market in 1836–7, there

was a great preponderance of opinions in favour of a complete separation of the business of the issue of promissory notes from that of the deposits and other mere banking operations. This separation, it has been thought, could be effected consistently with the maintenance of the establishment of the Bank of England, preserving, and, if possible, extending, the sphere of its existing privileges of issue, but keeping the department for such issue distinct and separate from the banking department. Mr. Norman, who, as a director of long experience, and possessing scientific as well as practical knowledge, is to be considered as a high authority on this subject, has, in a publication which appeared about two years ago, given his opinion that the principle of retaining a fixed amount of securities should be abandoned, and a plan, of forming two distinct departments, substituted for it. The following is the passage of Mr. Norman's tract to which I allude:—

"The principle of retaining a fixed amount of "securities, lately acted upon by the Bank, had "the merit of being the first, if not the only, sys- "tem at all in accordance with the rules of "science which have ever yet guided the conduct "of any very important body issuing a paper cur- "rency; yet it is palpably faulty, as mixing to- "gether circulation and deposits—things in their "nature distinct; and treating an increase or "diminution of the former as equivalent to an in- "crease or diminution of the latter; it is besides, "as experience has shown, of extremely difficult "application, and requiring, to be understood in "practice, much explanation, which may not, after "all, be successful in making it perfectly intel- "ligible to the public. Rendering full justice to "the talent of those who devised this scheme, it "seems clear that the time is come when it ought "to be abandoned, and the plan so ingeniously

"explained by Colonel Torrens, viz. that of form- "ing two distinct establishments within the walls "of the Bank, of which one should form the bank- "ing, the other the circulation department, be "substituted for it, provided there are no insuper- "able difficulties of a practical kind in the way. "Upon this point, the author's acquaintance with "the internal mechanism of the Bank is not suf- "ficiently particular to enable him to pronounce a "decided opinion; he can only say that, although "perhaps great, he cannot think them insuperable; "and that no minor obstacles in the details of the "corporation, should be allowed to stand in the "way of a great public good." (p. 97.)

With reference to the opinion here stated, which is deserving of every attention, I have before had occasion to observe, that whatever the merit may have been of the principle of retaining a fixed amount of securities, there is reason for thinking that the rule was derived from the fact, and not the fact from the rule, in the only instance in which, during four successive years, the securities had been preserved in a tolerable degree of uniformity, viz. from 1828 to 1832. During the whole subsequent period, it seems to have been a rule which regulated nothing. But I do not see why it should be pronounced to be faulty, simply because it mixes together circulation and deposits, things in their nature distinct. One great objection to it, doubtless, is, that there is no clear guide to the amount which should be considered as that which it is desirable to preserve unvaried; and another objection is, that without that part of the scheme propounded in 1832, which related to the proportion of one third of bullion to the liabilities, there would never be any security from the risk of overestimating the amount that might be so held; the consequence of which might be, under circumstances suddenly operating upon the exchanges, a

drain of bullion to exhaustion before an adequate contraction of the whole circulation would be effected.*

With regard to the substitution of the plan of separating the issuing from the mere banking department, I concur in the following opinion, expressed by Mr. Pennington in his letter to me, inserted Vol. II. p. 378. of this work, dated April 10, 1838:—" Although there is at present, " I apprehend, no confusion of accounts between " the two departments, yet so complete a separa- " tion of them as that which has been suggested " could not well be effected without a more formal " division of debts and assets than mere book- " keeping can accomplish." And more especially do I participate with him in the doubt which he expresses when he adds, " Whether a deposit " bank, on so large a scale as that of the Bank " of England, could be so conducted as to pre- " vent considerable variations in the value of the " currency, I own I have considerable doubts."

If no other scheme could be devised for preserving inviolable the principle of convertibility of the paper, which I hold to be the condition *sine qua non* of any sound system of currency, there would, in my opinion, be sufficient reason for the

* Tried, however, by the proportion of bullion to the liabilities, the irregularity of the action of the Bank is still more striking than by a reference to the amount of the securities; thus, for instance —

		Liabilities.		Bullion.
		£		£
May 28. 1839	-	26,028,000	-	5,119,000
July 23. 1839	-	26,904,000	.	3,785,000

And, in point of fact, there is no part of the evidence on the Bank Charter in 1832 which warrants the supposition so commonly entertained, that the directors considered themselves bound to endeavour to maintain their bullion in the proportion of one third to their liabilities. Indeed, it was quite impossible, consistently with their qualifications of the rule, that, except by accident, that or any other proportion should be observed.

adoption of a plan on the footing of the separation suggested. But, on the supposition of its being deemed desirable to resort to such a plan, there would be great difficulty in preserving the separation, consistently with having the control of both departments under the same body of directors. And since, in regard to the difficulties of a practical kind in the way of such arrangement, Mr. Norman, with all his experience as a director, states that his acquaintance with the internal mechanism of the Bank is not sufficiently particular to enable him to pronounce a decided opinion, it would be the highest presumption in me to hazard any conjecture upon the practicability of it.

Supposing, however, the practical difficulties of the machinery to be got over, I am very much inclined to suspect, that the plan, in the working, would not be found to answer all the expectations entertained of it by its advocates. It would, indeed, if strictly enforced, effectually preclude all danger, under any probable circumstances, of a suspension of cash payments; and the full security on that score would, if it could only thus be obtained, be a compensation for much attendant inconvenience. But although such a separation, if it could be really and rigidly maintained, would effectually preserve the convertibility of the paper under any probable demand for gold, it might, under some conceivable circumstances, be attended with a whimsical effect. Supposing the deposit department to have no convertible capital beyond its *rest*, and to have advanced on securities an undue proportion of its deposits, a sudden demand might, under circumstances of no improbable occurrence, arise from the depositors to an extent beyond that which the reserve of notes or bullion, or of securities immediately convertible, could satisfy. In such case the deposit department, in its extremity, might apply to the issuing

department for an advance of bank notes or gold; but the latter department must be supposed inexorable, and so the banking department under the same establishment might stop payment, while the issuing department would go on as usual.

The heaviest charge against the Bank, in its management of the circulation, of late years, has been that of allowing itself to be brought to the very verge of suspension; for, in other respects, it is rather in their management of the deposits, than in that of the issues, that the directors have operated inconveniently on the rate of interest. In fact, hitherto the main inconvenience that has been felt in this country, from what is called, but with no great propriety, a disturbance or derangement of the currency, during the last twelve-months is confined to the variations which have occurred in the rate of interest; for of commercial discredit, or of disturbance in the markets for produce, or in the value of property in lands or houses, nothing whatever has been experienced. But is it clear, and on what grounds can it be shown, that under a purely metallic variation there would not occasionally be very great fluctuations in the rate of interest, and under many conceivable cases much greater?

I am inclined to think, as I have before observed, that in an extended commerce like ours, in which it is inevitable that confidence must prevail in ordinary and still more in prosperous times, and that credit must consequently, in various forms, such as bills of exchange, book credits, and contracts for time, enter largely into the general transactions, overbanking and overtrading *may*, and among a highly ambitious and enterprising mercantile community *must*, occasionally take place. And although overbanking and overtrading might not, under a rigid metallic variation, proceed so far as they might in the case of an accom-

panying increase of paper money, the transition to a state of discredit, although perhaps, but not certainly, within a shorter range in point of time, would in some instances, be more severe; that is, the transition from a low to a high rate of interest might be more abrupt, and to a higher rate, and consequently a revulsion of credit, if there had been previous overtrading, would be more sudden, and more severely felt.

In times, for instance, when a sudden demand for foreign currency should arise, such as the importation of a large quantity of foreign corn, and simultaneously, perhaps, of several other kinds of produce, in consequence of previously short stocks, the pressure on the exchanges causing a sudden export of the circulating medium in payment, before increased exports of commodities, could be made available, (and still more, as has been the case in some instances, for example, in 1818, when large loans by the continental powers occasioned the transmission of capital from this country for investment in foreign securities,) might be such as to entail a sudden and very great contraction of the currency. This would be felt most severely in transactions on credit. Large amounts of bills of exchange and promissory notes, and book credits, for transactions on an extended scale, entered into while confidence had been entire, and when new fields of enterprise had presented themselves, might just then be becoming due. At the same time the bankers, feeling immediately the effect upon their reserve of the contraction of the circulation, would call in their advances on book credits. Under such circumstances, the merchants and manufacturers, who might have to borrow or discount for the discharge of those engagements, would have to pay enormously for the accommodation, by a very high, and, it might be, a very ruinous rate of interest or discount.

It may be asked, why this should be the case? wny, or how, upon a strictly metallic basis, the transition from a low to a high rate of interest, even in the case supposed, should be likely to be more severe than under a system in which, as at present, the two departments of deposits and issues are blended? The answer to this question is, that whether it might not be more severe would depend upon the state of trade and of credit, both private and public, at the time when, from circumstances arising either at home or abroad, there should occur a demand upon the Bank for gold.

Under circumstances, for instance, like those in which the trade and circulation stood in 1838, there having been no general prevalence of overtrading, and not much observable of unduly extended credit, I conceive that the early check which, upon the plan here supposed, the first marked demand for export of bullion would have occasioned, in the contraction of the circulation, and a consequent early and decided advance in the market rate of interest, would, for the reasons before given, (more especially as it would have prevented so large an importation of American securities,) have obviated, in all probability, the necessity for such stringent measures as have since been found requisite to save the Bank of England from suspending its payments.

But if an examination were entered into of the manner in which the system of separation would have worked, if it had been in operation, in 1835–6, it would be found that, while it would have presented *no obstacle whatever* to the phenomena of the low rate of interest, the speculations in shares, and the overtrading with the United States and the East Indies and China, and the extravagant credits granted by the American houses, it would infallibly, when the turn came. (*as it must equally have come,*) causing a demand for gold, both for

export and for internal purposes, have been attended with a recoil much more abrupt and violent than that which was experienced.

I have before had occasion to observe, that, as far as regards the bank notes in circulation, the amount in 1835–6 was not above that which would have existed under a separate and metallic variation; while the banking or deposit and discount department, receiving so very large an accession of deposits as it then did receive, would equally have invested the same proportion as it did in securities, the same reasons applying. Consequently, the rate of interest would have been as low, and the facilities of credit, and the motives for making use of it in overtrading, would equally have existed, without any check from the issuing department, inasmuch as gold was still flowing in till an advanced period of the spring of 1836. When, however, the demand for export of gold arose, such demand, operating in an immediate contraction of the circulation of Bank notes, would, in all probability, have rendered a considerable proportion of the immense mass of bills of exchange, both foreign and inland, inconvertible, except at a very much higher rate of interest than then prevailed. A sudden decrease of two millions, from the already low amount of the circulation, would have had a serious effect on the discount market, and perhaps on commercial credit; an effect much greater than a similar reduction under the present system.

The London bankers and the great money brokers, and consequently the country bankers, under the existing system, proceed with some degree of confidence, even in times of pressure, in advances or discounts on unexceptionable securities, at the same rate as that announced by the Bank, or, in the case of the money brokers, with the addition of a commission; be-

cause they feel assured that they can draw bank notes out on an emergency, by sending bills into the bank for discount, and so fill the void which would otherwise exist in the means of making the customary amount of payments. If no such grounds of confidence existed, the limitation of discounts or loans by the bankers and money dealers would, under the first pressure, be in a much greater proportion than that of the amount of reduction in the circulation. The deposit department might, doubtless, answer the demands of its depositors, and issue what bank notes it held to them and to applicants for discount, and so, to the extent of its stock of bank notes and bullion, might offer relief. But in the case which I am supposing as that of August 1836, there would certainly have been no bullion, and very few bank notes, to spare in the deposit department; for, upon the first feeling of pressure, the deposits would have been diminished, and the applications for discounts would have increased. Indeed, the withdrawal of deposits, large as it was, having been to the extent of upwards of five millions between January and September of that year, would have been much larger under the circumstances supposed, and could only have been met by forced sales of securities, accompanied by an extreme limitation, if not an absolute refusal, of further discounts. But it could not by those or any other means fill any void in the circulation of bank notes which the demand for bullion had caused; nor could it have interfered, as it did, in behalf of the Northern and Central Bank, or in behalf of the American houses; and it is left to the reader to judge, whether the rise in the rate of discount would not have been, in the case supposed, much greater than it actually was.

Reasonable grounds, indeed, might be shown for the opinion, that in the majority of cases of

reaction from previous overtrading, against which it is doubtful whether there would be greater security, the pressure, under the proposed separation of the deposit and banking departments, would be more severe than under the present system. The greater restrictiveness, and the consequent liability, under certain circumstances, to a more sudden rise in the rate of interest, and to a more abrupt termination of unduly extended credit, ought most unquestionably not to be allowed to outweigh the consideration of the greater security which the plan proposed would afford against the contingency most of all to be guarded against, of a suspension of cash payments. But independently of the greater restrictiveness or rigidity with which the machinery of such a system is calculated to act, the anomalies and difficulties attending any attempt at carrying into effect a complete separation, such as that suggested, in the same establishment, and under the same general control, appear to be of such a nature as not easily to be surmounted.

Upon the whole I cannot help thinking, with great deference to the deservedly high authority of those persons who have recommended such separation of the business of the Bank of England into two departments, perfectly distinct and independent of each other, that if such separation could be carried completely into effect, which seems to be doubtful, the system would not be found to work so well, that is, with so little disturbance of the money market, as the system of union of the two departments, *provided* that the system as it exists in that respect could be guarded from such danger of suspension of convertibility as we have so narrowly escaped.

SECTION 2. — *Plan proposed for retaining the present System of Union of the Two Departments, with greater Security against the Risk of Suspension.*

There is one alteration in the mode of management, which, if the directors could be prevailed upon to adopt, with some satisfactory assurance to the public for faithful adherence to it, would, as it strikes me, afford the full advantages of the greater facility and play of the machinery attending the present system, without the liability to a recurrence of such alarm for the convertibility as has been recently experienced. The alteration which I would venture to suggest is a very simple one, namely, that discarding the rules which were professed about keeping the securities even, and of investing in a full state of the currency two thirds of their liabilities, rules which were inconsistent with each other, and were in fact never observed, *the directors should undertake to hold in reserve a much higher average amount of bullion than they have hitherto considered it necessary or consistent with the interests of their proprietors to maintain*: the fundamental error in the management of late years having been, that of attempting to regulate the large united amount of circulation and deposits upon too small an average reserve, partaking very much of the character of *over-banking*.

The opinion which I ventured to express in a former part of this work, written two years ago *, "that as far as the eventful experience of "the last fourteen years, viz., since 1824, can "serve as a guide for judgment on this point, "there appear to be good grounds for believing "that *not less than ten millions can ever be con-*

* Vol. II. p. 330.

“*sidered as a safe position of the treasure of the* “*Bank of England, seeing the sudden calls to* “*which it is liable,*” has received ample confirmation from recent events.

Circumstances of no improbable occurrence prove clearly, that with our present corn laws large foreign payments, in the event of a deficient harvest, concurring with other causes of an adverse exchange, may require an export of bullion to the extent of ten millions. That was the amount of treasure in the Bank coffers in 1838, and it was reduced in 1839 by actual export to little more than two millions; and if to the eight millions actually exported be added the two millions of credit which the Bank availed itself of on the Paris bankers, besides a further amount of about 700,000*l.* which were drawn upon Hamburg against a distinct credit, supposed to be for account of the Bank of England, these amounts being in lieu of so much shipment of bullion, the total balance of demand on the coffers of the Bank may be considered as equivalent to ten millions. In 1836 the stock of bullion, having been nearly eight millions, was reduced in a few months below four millions; and if the ports had then opened, as was at one time probable, for the admission of foreign corn at the lowest duty, there is every reason to believe that the Bank would have been driven as nearly to exhaustion at that time as it has recently been. The narrowness of such escapes, especially when at the expense of such an expedient as that of a resort for assistance to the bankers of Paris, is any thing but creditable to the country and to the institution.

Hitherto, at least since 1830, whenever, by the tide of the metals inwards, the amount of bullion has reached ten millions or upwards, the Bank has taken *active measures* to convert a part of so unproductive a stock into securities; and consequently the intervals during which the amount

was at that high rate were very short; a few months in 1833 and a few weeks in 1838; while during 1834 the amount gradually fell from 9,954,000*l.* to 6,720,000*l.*, ranging under this last sum during the whole of 1835; and in the entire interval of the three years, 1834–5–6, the amount of bullion never reached one third, and was several times under one sixth, of the liabilities.

If the directors had been as much on the alert to reduce their securities when the bullion was going out as they have been impatient to increase the productive part of their assets, and so to drive back the metals when they tended to reach or to exceed ten millions, there would be something like principle in the regulation; but as it is, while they have been impatient under an accumulation amounting to ten millions, and have adopted forcible measures for reducing it, they have been perfectly passive till it got below five millions, when, as in the recent instance, the tide had already set so strongly outwards that their utmost subsequent efforts could hardly prevent a complete exhaustion of their treasure.

The plan which I would propose is, that when the tide of the metals sets fully in again, the Bank rate of discount should be kept so steadily above the market rate as progressively to reduce their securities through that channel, without increasing them by other investments. The effect of this would be to ensure a replenishment of their coffers to ten millions; and with the purpose of endeavouring to preserve that amount *on an average*, it would not be expedient on the part of the Bank to take any *active* measures for the increase of its securities. It is not improbable, judging by the strength and fulness of the tide with which the metals have flowed in on some former occasions, that the amount might thus reach fifteen millions, beyond which, according to analogy from former experience, it is not likely

that it would go. The probability is, that in the fluctuations to which our trade, particularly that in corn, is liable, the exchanges would take an adverse turn; bullion would flow out, the market rate of interest would rise to the Bank rate, and then it would be that the advantage of the large stock of bullion would be felt; because to the extent of five millions the foreign exchanges or internal demand might be allowed to operate upon the stock of bullion, without the necessity on the part of the Bank to counteract that demand by any active measures in raising its rate of discount or selling its public securities. The quantity of money in such case in actual circulation would not be reduced, excepting in a small proportion only, to the reduction of the amount of bullion, because the withdrawal of deposits would, under the slight pressure on the money market which would attend a rise in the market rate of discount to the Bank rate, restore to the circulation an amount of Bank notes nearly equivalent to that which had been in circulation against the bullion taken out. In the majority of cases of the variations in the value of our currency relative to the currencies of other countries, whether originating on this side or the other, the balance of payments would in all probability be satisfied by the export of that amount of bullion. If the drain, however, on the coffers of the Bank should, after a reduction to ten millions, continue so as to give reason to apprehend the existence of more extensive and deeper seated causes of demand for the metals, measures might be taken for its counteraction, without producing alarm and disturbance of the money market on the one hand, or endangering an extreme and unsafe degree of reduction of the Bank treasure on the other.

A latitude for variation between fifteen millions and five millions would afford a much greater exemption from shocks on the money market than

a variation, as it has recently been, between ten millions and nothing.

That the Bank might, by a regulation of its securities, maintain a high average amount of bullion, such as has here been suggested of fully ten millions, cannot admit of any reasonable doubt. And I believe that such a regulation would be more easily practicable than either that of maintaining the securities even, or of preserving the bullion in any given proportion to the liabilities. The money market would be less liable to be disturbed than under either of the two latter alternatives. The utmost alteration of the rate of discount to which the Bank might have occasion to resort would probably not exceed 1 per cent.; and the occasions for an alteration even to that extent would probably be rare. A system like this would be less restrictive, that is, the principle of limitation would operate less rigidly under such a regulation of the bullion, consistently with a blending, as at present, of the issue and deposit departments in the Bank of England, than by their total separation.

I feel strongly confirmed in this view of the greater facility, that is, of a principle of more easy adaptation, in the present system, subject only, as an essential condition, to the maintenance of a much larger stock of bullion than has hitherto been retained, by the opinion of Mr. Gurney. The following is an extract from his evidence before the committee on the Bank Charter in 1832.

3592. " Would not these fluctuations in the " value (interest) of money take place even " although there were no paper circulation ?—I " think they would take place, and to a greater " extent.

" Why do you think to a much more severe " extent? — Because the transactions would at " times be much more cramped, a circulation of " coin not giving nearly the same facilities.

"Do you think that it is possible that any "system of banking could be established in the "country which would prevent the variations in "exchanges you have stated to exist?—Decidedly "not.

"What state of currency do you think would "be the state that would occasion the least fluc- "tuation; a paper, or a metallic, or a mixed "currency?—A mixed circulation has the best "effect in this respect. No system of currency "can be established that will prevent these fluc- "tuations; they are in the very nature of things; "you can no more prevent the value (interest) of "money rising and falling, or the variations of the "foreign exchanges, and their consequences, than "you can prevent variations in the prices of corn.

"In a sound state of the currency, will not "those fluctuations that occasionally happen be "dependent altogether upon commerce?—Not "altogether.

"Will they not be mainly dependent upon the "natural changes in the value of commodities, "foreign and domestic?—Partly, but not wholly "so.

"Having stated that those fluctuations would "be violent, supposing the currency altogether "metallic, and that they would also occur if the "currency was altogether paper, do you not think "that a mixed state, such as we have now, or one "similar to that, is the one most likely to prevent "those fluctuations?—I think that such a circu- "lating medium as we have now has the most "wholesome effect of any in controlling these "variations.*

* Mr. Gurney, in speaking of the wholesome effect of the system in controlling variations in the rate of interest, was referring to the management such as it had been between 1827 and 1832, when, chiefly by the possession of a large amount of treasure, it had in two recent instances surmounted a considerable drain without any great pressure on the money market. In the former part of this work (Vol. II. p. 221.) I have pointed

" As it is in the nature of the paper circulation, " that when prices are rising there should be an " increased issue of that circulation, and when " prices are falling is there not a natural tendency " to contract the issue; does not this increased " issue of paper when prices are rising tend still " further to increase the prices, and does not that " reduction of paper when prices are falling tend " still further to reduce the prices; and from " those circumstances is it not in the nature of a " paper circulation to occasion greater fluctuations " than would take place if the circulation were " purely metallic?—I think not; a state of in- " creasing prices has a tendency to increase the " amount of circulation; a decrease in prices has " the contrary effect; but it is an effect that " operates more decidedly upon our country bank " circulation. It does not operate in the same " extent upon the circulation of the Bank of " England, because their circulation is more fixed " in its character, so much of it being represented " by a debt due from government, which does not " fluctuate. A country banker's circulation fluc- " tuates wholly and solely, in my opinion, with " the state of prices and the extent of transactions " in his own district, and he cannot increase the " amount beyond what is thus called for.* It is

out strong grounds for presumption, that if during that interval the variation of the circulation had been on a purely metallic basis, the pressure on the money market, which had been hardly felt, would have been very severe.

* The tendency here observed by Mr. Gurney will go far to explain the expansion of the country bank issues in 1838, and in the first six months of 1839. The great increase of the prices of agricultural produce, but still more the great increase of transactions by the circulation of foreign corn in the interior, creating a vast mass of bills of exchange among factors, and dealers, and millers, must obviously have caused an enlarged circulation of bank notes for the liquidation of such transactions. The bank notes so created were not the cause of the rise of prices, and of the consequently increased transactions by bills of

"a mistake when any people talk of over-issues "of country bankers as being under their own "control; if they did not issue their own paper, "they must, when their district calls for it, issue "Bank of England notes.

"In what manner then would the prices of com-"modities be affected if on a rise of prices taking "place the country bankers did not increase their "own circulation, but issued Bank of England "notes in the manner suggested in the last "answer?—I do not think it would affect prices "at all, whether they issued a certain amount of "their own notes, and added a certain amount of "Bank of England notes, or whether they issued "the whole amount in their own notes.

"In issuing an increased amount of Bank of "England notes, do you assume that the number "of Bank of England notes in circulation would "remain the same, or be increased?—It depends "upon the extent of their circulation; at times "the amount of the notes issued by the Bank of "England is more than comes into operation or "circulation; the effect of this is a reduction in "the value (interest) of money, and very great "facilities in money transactions; this low state "of money, and these great facilities, ultimately "produce an extension of the amount of notes "that come into operation, and extension of trans-"actions; this extension of transactions after a

exchange and other forms of credit, but those increased transactions necessarily entailed an increase of bank notes. This was the case while the prices were rising, and while the distribution of the large quantities of foreign corn was in progress. After the bulk of that supply had found its way to its ultimate destination, and after prices had reached their maximum, the activity and extent of transactions were diminished, so that, independently of the influence which the reduction of the Bank of England issues was calculated to produce, the tendency of the country bank circulation would have been to a contraction in the last six months of 1839.

" time operates upon prices *, but it is not a very " rapid process ; it is rather slow than otherwise.

" Do you think that if the country bankers " issued notes of the Bank of England, instead of " issuing their own notes, the effect you have " described upon prices would be more gradual " than by issuing their own notes?—I think it " would be more sudden.

" Why do you think it would be more sudden ?— " Because it would then be altogether under the " control of the Bank of England only; the " Bank is strongly influenced by the question of " gold and of the exchanges.† If it is a circula- " tion of a country bank paper, it becomes modified " in a considerable degree by the interests and " wants of the particular town or district; and " although it must ultimately follow a reduction " of the notes of the Bank of England, it would " not so suddenly follow it as if it was altogether " under the control of the Bank of England. I " think the effect would be more injurious to the " provincial towns to be so controlled, than by " leaving it in the hands of those whose business " it is, and who know what is wanted in each " town.

" Does it not follow from what you have said, " that an over issue of notes of country bankers " cannot easily be effected ?—My belief is that it " cannot be effected by any act of the country " banker."

The opinion here expressed, that an over-issue of notes by country bankers cannot be easily

* See ante, p. 157.

† If the case of the increase of the country circulation in 1838 were gone into, and fairly followed out, it might be shown, that if the Bank of England had been the sole issuer there *would*, and under a purely metallic circulation there *might*, have been an equal increase of the country circulation; but the reduction in 1839 would probably in the latter case have been earlier, and would most certainly have been more abrupt.

effected is well worth following out. The security is a point clearly distinct from the question of undue enlargement.

My purpose, however, in giving this extract from Mr. Gurney's evidence is to adduce a very important practical authority in support of my view of the greater rigidity of the operation of the principle of limitation of a purely metallic variation, that is, of a variation in the amount of the circulation corresponding exactly with every varying turn of the exchanges, as compared with a system like that which prevails in the management of the Bank of England; a system which, if the security of a permanently increased stock of bullion could be added to it, appears to be preferable in most points of view to any others which have been hitherto before the public. There are, however, objections to the essential condition of a greatly increased average amount of bullion, which are very formidable, and may be found to be insuperable.

Of these objections the most important are the two following:—

1. The interests or supposed interests of the Bank proprietors; I say supposed, because their real interests are bound up with the permanence of the establishment, which can only be preserved in as far as it may be found to be conducive to the public interests.

2. The country circulation, which, although I do not admit that it *has in point of fact* in any considerable degree counteracted any efforts of the Bank of England to regulate its issues by the exchanges, might be apt to extend itself at the expense, or, in other words, to the exclusion, of the Bank of England circulation, in the districts beyond sixty-five miles from London in which Bank of England notes now circulate.

The first of these objections, namely, that which

may be supposed to arise on the part of the proprietors, must of course weigh greatly with the directors. The unproductiveness, in the view of immediate profit, of so large a stock of bullion as is here proposed to be maintained on an average, must of course be a serious consideration with reference to the dividend. To be liable to have a stock of bullion occasionally reaching nearly to the amount of notes in circulation is assuredly an unpromising prospect for the proprietors; and I am not at all aware of any means of getting over the difficulty hence arising, unless some compensation in the terms of the renewal of the charter were offered; a compensation which, seeing the prevailing prejudices against the Bank of England, is not likely to be granted.

The other objection is perhaps still more formidable, namely, that arising out of the country circulation. I do not at all enter into the charges against the regulation of the issues of the country banks, whether private or joint stock, as tending necessarily to surcharge the general circulation of the country, and to depreciate the value of the currency. Since the severe discipline and purification which the country banks underwent in 1825–6 there is no distinct ground to impute to the amount of their issues either the origin or any material aggravation of the occasional variations in the state of the money market which have since occurred. Whatever of inconvenience from those variations may have been experienced is fully as much chargeable to the Bank of England as to the country banks; and in the case of neither of them do I consider that blame attaches so much to the regulation of their issues, (in which they are both limited in a degree that the public hardly appreciates,) as in the management of their deposits, or rather in their advances by way of loan and discount. In the flagrant cases of the Northern and

Central Bank in England, and of the Agricultural and Commercial Bank in Ireland in 1836, their extravagance was, not in their issues, but in the extent and nature of the securities on which they had advanced the monies of both their depositors and subscribers. So likewise in the more recent instances of some other joint stock banks. And as regards the Bank of England, it has been in the use of its deposits, both in 1836 and 1839, and not in its circulation, that it has been fairly chargeable with *over banking*, insomuch that if it had not had the resource of its credit in the issue of its notes the mere banking department must have stopped payment. So much I have thought necessary to state respecting the management, both by the country banks and the Bank of England, in their general business of banking, in order to clear the ground for what I have to observe relative to their respective parts in the issue and circulation of paper money. Their competition in the issue of bank notes beyond sixty-five miles from London is a good deal, if not mainly, determined by the rate of interest which they respectively charge. Now, if the Bank of England were, with a view of preserving a high average amount of bullion, to keep its rate of interest and discount permanently high, and mostly above the market rate, the effect would be, in all probability, the gradual encroachment of the country issues, and their ultimately excluding the Bank of England circulation.* Even on the present system of the Bank of England, of competing in the rate of interest with the country banks, the latter, there is reason to believe, have been gaining ground.

* I do not here take into consideration the arrangements made by the Bank of England with some of the country banks, for the purpose of employing its notes supplied by advances on securities below its public rate of discount. Such arrangements complicate the question, and should be separately considered.

Mr. Norman, writing in 1838, took occasion to observe, — "It is the more necessary to take "immediate measures for the reform of the country issues, because, as things now are, the existence of the currency of the Bank of England "out of the metropolis hangs upon a thread. "Even in Lancashire, which used to be supplied "by it exclusively, joint stock notes are now circulated, and will gradually more and more make "their way, until their rivals are entirely expelled. "The final result will be to confine the latter "to a constantly diminishing circle around the "metropolis."—*Remarks on Currency and Banking*, p. 104.

There would, therefore, be no fairness in requiring the Bank of England to keep up a stock of bullion, which might, if its country circulation were so reduced, amount on an average to two thirds or three quarters of the amount of its issues of notes, while the country bankers are exempted from keeping any reserve at all of gold, and are able, by the present rapidity of communication with London, to obtain at the shortest notice a sufficient supply from the Bank of England to answer any unusual demand. Accordingly, if it should be deemed desirable by the legislature to enforce upon the Bank of England the necessity of habitually maintaining a larger amount of bullion than it has hitherto maintained, the Bank of England would be entitled to require, in the view both of compensation for the expense and of being the better able to regulate the circulation, to be the exclusive source of the issue of paper money. Whether an arrangement would admit of being made with the country banks on equitable terms to this effect I am not prepared to say. I have merely thrown out the suggestion of it, as being desirable, if practicable, with a view to the convenience of the public.

If these objections should be deemed insurmountable, as from the nature of the interests involved is but too probable, it may be considered a work of supererogation to notice two other objections, which, were the scheme otherwise practicable, would be likely to be urged against it. But as they involve questions of principle, and proceed on specious and popular grounds, they may be worth a passing remark.

One of the objections here alluded to is that of the supposed unproductiveness, in a national point of view, of so much capital locked up without employment. If the increased average amount of bullion were, which it is not, so much capital locked up from profitable employment, that consideration would not be a sufficient objection, seeing that the reason for maintaining a high average amount is to mitigate the tendency to great and sudden fluctuations in the quantity of money in actual circulation; fluctuations which, when they do occur on an extensive scale, are attended with a disturbance and misdirection of capital and industry, and with consequent losses, which in a national point of view would greatly overbalance any profit which might have been derived from the investment of that capital in securities, and thus driving the gold abroad. But in truth the stock of bullion so reserved cannot be looked upon, in any fair sense of the term, as unproductive. It is in fact a part, and upon the grounds which I have stated an essential part, of the currency circulating in the form of paper, which is substituted for its only legitimate purpose, public convenience; a purpose which would not be fulfilled if a large proportion of gold were not held, to answer unusual calls for payment abroad, to which the paper is not applicable.

The other reason that might and probably would be urged against any scheme involving so

large a reserve of bullion as has here been suggested rests on the supposition, that the attracting of the extra amount must be preceded by, and attended with, an undue and unnatural contraction of the currency, the effect of which would be, a depression of prices to an unnecessary extent.

This is a consideration with a view to the public, which, coinciding as the reasoning does with the objection on the score of profit, to a large reserve, it is probable weighed with the Bank directors in their efforts to stop the influx, and to get rid of what they seem to have considered the excess, of bullion, in the spring of 1838. With reference to the influx at that time, Mr. Norman, in the tract before quoted, observed,—" It is probable that an increase will " be found in the treasure of the Bank, between " its lowest amount last spring and the highest " just previous to the next turn of the exchanges, " of from seven to eight millions. Now such an " influx of treasure is unnatural, and could never " occur with a metallic circulation. Its effects, " greater or less in proportion to the error, will " be accompanied in the first instance by a de- " pression of prices, unnecessary in extent and " continued too long, and finally by a reaction, " which will occasion an equally unnecessary and " faulty excess on the other." p. 91.

Why such an influx of treasure could never occur with a metallic circulation does not very clearly appear. With our very extended foreign trade, which is habitually conducted on the footing of a large proportion of our exports being on long credits, while our imports are mostly paid for at short dates, and with our present restrictions on the corn trade, there might be, as there have been, on the one hand, large sudden payments abroad requiring a considerable export of bullion before any excess of merchandise exported

could bring returns; and, on the other hand, when the demand for corn and for other imports, including foreign securities, ceased or abated, the returns for an excess of former exports would be coming forward, and bullion must in that case form, for want of other means, a large part of such returns. Such was the case in 1815–16, in 1820–22, and, excepting as regards corn, such was the case with the influx of bullion in 1826 and in the early part of 1838. If the ports should be shut against the importation of corn for the next two or three years, and, at the same time, from salutary distrust or other causes, there should be a diminished demand for foreign securities, there is likely to be a strong tendency to an influx of the metals; and it is not easy to understand why it should not be equally strong with a purely metallic variation. The Bank of England may doubtless, as in 1836 and 1838, by a competition for the investment of its deposits, create a renewed demand for foreign securities, and so stop the influx of bullion; but so the deposit department likewise might do if its functions were separated from the issuing department.

But it is to the supposed unnatural depression of prices, ascribed as an effect of the contraction of the circulation, which is assumed to lead to the influx of the metals, that my remark is directed. This hypothesis rests upon the currency theory of prices, which supposes that the contraction of the circulation, in such a case as that alluded to, reduces prices, and that the reduced prices force an influx of the metals; whereas the contraction, or rather the diminution of the circulation, is in such cases the consequence of a fall of prices from causes arising from the state of trade, and peculiar circumstances affecting the supply and cost of production on the one hand, and consumption on the other. As to an increased value

of the precious metals, which might be supposed to be the consequence of retaining permanently an addition of fully five millions as a reserve in the coffers of the Bank, it would, according to any received grounds of computation, amount to so very minute a percentage, as to have no *perceptible* influence, and may, therefore, safely be neglected.

If the several objections here enumerated, or some one or more of them, be considered as placing out of the question a continuance of the present system of the Bank, with only some assurance for the maintenance of a much larger stock of bullion, and if the difficulties attending a complete separation of the functions of the Bank into two distinct departments under one establishment, be found, as they appear likely to be, insuperable, it remains to consider what are the alternatives which present themselves.

Section 3.—*On the Two Schemes which offer themselves, consistently with the present Standard, in the Event of the Bank Charter not being renewed.*

In the event of the discontinuance here supposed, of the exclusive privileges of the Bank of England, there appear to be only two other schemes which offer themselves for adoption, consistently with the maintenance of a system of mixed currency, consisting of coin of the present standard, and of paper strictly and constantly convertible into coin. As to any alteration of the present standard, I do not for a moment admit that the recent instances of jeopardy in which the convertibility of the paper has been placed furnish the shadow of a ground for questioning the justice and policy of

maintaining it in every respect unaltered and unimpaired. I may perhaps offer, before I conclude, a few remarks upon some of the reasonings put forward against the system of the currency according to its present standard, independently of the question of the mode of administering the paper part of the circulation, such paper being required to be strictly convertible. In the meantime, supposing an alteration of the standard to be out of the question, the two schemes which offer themselves, in the event of the cessation of the Bank Charter, are—

1. A national bank, under the management of commissioners appointed by parliament, upon a footing analogous in principle to that originally recommended by the late Mr. David Ricardo. The commissioners being bound so to regulate the issues, beyond a certain fixed amount invested in securities, by exchanging notes for gold, or gold for notes, as should have the effect of making the variations in the amount of the circulation correspond exactly with the variation which would occur if it were wholly metallic.*

Without entering into the details of such a scheme, which, as it has in several instances of late been propounded, is doubtless sufficiently familiar to my readers, I have to observe, on its general outlines, that it has much to recommend it, and that it would be entitled to a decided preference over any other in the event of the non-renewal

* The plan of a national bank, as recommended by the late Mr. David Ricardo, has been recently brought again to the notice of the public, and placed in a very clear point of view, in a tract by his brother, Mr. Samson Ricardo, with further arguments and illustrations, in the application of it to the present state of things, in the supposed event of the non-renewal of the Bank Charter. The title of Mr. S. Ricardo's publication is, "A National Bank the Remedy for the Evils attendant upon our present System of Paper Currency. 1838."

of the Bank of England Charter. But, upon the grounds which I have before stated, the trading and banking part of the community would have to lay their account in a much more rigid principle of limitation to the credit part of the circulation, and a consequent occasional greater rise in the rate of interest, upon the more sudden collapse which must under such a regulation follow the reaction from any casual undue expansion of credit, than under the present system. It may be contended, that the liability to undue expansion will be less. Of this, however, I must repeat that I have great doubts. I do not feel at all sure, that upon a purely metallic basis there may not be, under circumstances favouring speculation and overtrading, (such, for instance, as are constantly occurring in the United States of America,) sufficient motives, in times of confidence and prosperous appearances of trade, and a great facility of obtaining credit, such an excrescent growth of credit, and consequently a circulation of promises to pay beyond the means of payment, as would exist under the present system. But the removal of such an excrescent circulation, although cut off more completely, and therefore leaving less of the seeds of diseased growth afterwards, under a purely metallic variation, would be felt with infinitely more severity at the time than it would be under such an improvement of the present system as I have ventured to suggest. At all events, it may be right that those, whose chief objections to the present system rest on its being too restrictive, and on its consequent liability to cause abrupt variations in the rate of interest, should take this view of the effects of a more complete metallic basis into consideration.

It may readily be admitted, that, as far as relates to the mere administration of a circulation of paper money, if the desideratum be that its variations

should exactly correspond with those which would be incident to a purely metallic circulation, the plan of separation of the departments within the Bank of England, or, if that should be found impracticable, a national bank, would be the only modes in which the principle could be carried into practice. But it appears to me that the propounders of the alternative of either of these schemes are not aware of some considerable drawbacks in practice from the superiority in point of principle of those schemes.

2. The only other scheme for supplying a paper circulation for the metropolis and parts adjacent, on a cessation of the exclusive privilege of issue by the Bank of England, would be that of joint stock banks in London and within sixty-five miles issuing promissory notes, either concurrently with the Bank of England, or wholly in lieu of the issues of the Bank of England, if the latter withdrew from such competition.

If the Bank of England were without the exclusive privilege to continue to issue promissory notes, I am quite persuaded that, at least for a long time to come, the attempt by other joint stock banks to obtain circulation for their notes within the same district would be abortive. The inconvenience of several descriptions of paper money entering among the multifarious and large payments of the metropolis would so infinitely outweigh any possible convenience, (and I am not aware of the *slightest possible* convenience,) that I am convinced that the merchants and bankers of London would have good sense and unanimity enough most strenuously to resist the introduction of so heterogeneous, so inconvenient, and so unsafe a medium for daily and current payments.

If, contrary, however, to reasonable supposition, a concurrent paper should get into circu-

lation, the Bank of England would or might find means of confining its supply of gold to its own purposes, and of compelling the competing banks to rely on their own reserves of coin. In this case, and more especially if the paper of the Bank of England were wholly withdrawn, I have no doubt that the competition of the banks would in times of confidence tend to *minimise* such reserve. The consequence of which would be, on the eventual reaction from overtrading, a contraction by all the banks, and a suspension of payment by more than one of them.* And as the government would not in such case be justified in interfering for their protection, if even so disposed, the circulation might be deranged in a most serious and detrimental manner; while such of the banks as might be able to stand their ground could only do so by restricting their advances in the way of discount or loan to a very contracted range. For a period of more or less duration the effect of this derangement of paper credit would be felt in a very great rise of the rate of interest, much beyond any that has recently been experienced; of which some idea may be formed by the extraordinary rate of dis-

* The Scotch banks have generally been considered as keeping very small reserves. Mr. Palmer having been asked by the Committee on the Bank Charter in 1832,—Qu. 595. "Do you "think that in such a crisis (as that of 1825-6) there would have "been a tendency to general contraction among banks acting "in competition with each other in the metropolis?"—Answer. "I think it would be precisely the case that does appear in "Scotland. The Scotch banks are banks of great credit and "great property; but whenever a demand arises upon them "they have not the means of meeting it without coming to the "Bank of England. Even in the last fortnight it is very cur-"rently stated that the banks in Scotland had not the power "of meeting the demand upon them. I believe Newcastle "afforded some assistance; orders were also sent to Liverpool "for a supply; and I know that a further supply went from "London."

count in New York, upon occasion of the efforts of the banks there to maintain their ground.

After the experience of more than one of such visitations, it is possible that the management of the banks might be improved, but it would take a long time first, and not till much needless suffering had been undergone.

This I apprehend would be the result, even under such checks as the legislature might endeavour to provide. Those checks could be effectual only in securing ultimate solvency, for I doubt whether any legislative measure could be devised which should be effectual in compelling the banks to provide, and always maintain, a sufficient supply of gold to meet extraordinary as well as ordinary demands. I am here assuming, as an undoubted right on the part of the state, the principle that banks of issue are properly subjects for regulation. As to free banking, in the sense in which it is sometimes contended for, I agree with a writer in one of the American papers, who observes, that *free trade in banking is synonymous with free trade in swindling.* And as to the claim which I have seen set up, on principles of freedom of trade, for issuing notes of as low a denomination as one pound, there is no ground of principle, if the claim were admitted, why notes for one shilling, like the shin plasters (as the quarter dollar notes in the United States were called), nay, even sixpenny notes, might not be allowed to circulate.

It would be exceeding the limits prescribed for this work, and would be wearisome to the majority of my readers, if I were to enter into more detailed arguments to show, from reasoning on general principles, confirmed by a reference to the analogy of facts, that the effects of competition of banks of issue in the metropolis, if allowed to obtain circulation for their paper, whether con-

currently with the Bank of England or to the exclusion of it, would be to ensure, at no long intervals, much more serious derangements of the currency, and more violent transitions in the rate of interest, than under the present system. That some adequate remedy would be found, after repeated experience of disastrous results, is reasonably to be supposed; but of this I feel sure, that the remedy will not be found compatible with the unqualified principle of freedom of action in banks of issue. The claims of right to such freedom of action in banking ought to be strenuously resisted. They do not rest in any manner on grounds analogous to the claims of freedom of competition in production. The claims for such freedom of competition are, on the part of the public, and are alone, of paramount consideration. *But the issue of paper substitutes for coin is no branch of productive industry. It is a matter for regulation by the state, with a view to general convenience, and comes within the province of police.*

It is sufficient here to notice the distinction without pursuing it further. I have only to repeat, therefore, that whether in the event of its being found that the Bank of England can offer no satisfactory security against the recurrence of such danger of suspension as we have recently escaped, or that, independently of that consideration, the legislature should determine to adopt, either a bank under the regulation of commissioners, or a competition of banks of issue, the probability is, that the variations in the rate of interest, which have been so much complained of, would be much greater under either of these systems, but more especially under the latter of them, than under the system, irregularly as it has been administered, of the Bank of England, on its present footing.

SECTION 4.—*On proposed Plans for altering the Standard.*

While one set of reasoners is arguing against the privileges of the Bank of England in the issue of paper money, and urging one of the two alternatives of a national bank or of a competition of banks of issue as substitutes for the Bank of England,—either of which systems would be more restrictive, the one constantly, the other more irregularly, but therefore the more violently so,—there are other reasoners more numerous, and more persevering, and more loud, who object to a continuance of the system on which the Bank of England has been conducted; not because it has been too lax; not because it has been too tardy in applying the means of preserving the convertibility of the paper; not because it has thus endangered the maintenance of the convertibility; but because it does not afford accommodation enough to borrowers; because, having by granting too much accommodation got into danger, it has adopted means, however tardy and doubtful as to efficacy, for extrication; and because, however irregularly and insecurely, it does ultimately apply a principle of limitation to over trading and to other forms of undue extension of credit; in short, because it is too restrictive.

The persons entertaining the opinion of the too great restrictiveness of the present system, and urging alterations of the standard with a view to relaxation, may be divided into two classes.

The one is in favour of only so much deviation from the present standard as would be involved in the change to either silver as the single standard, or to silver concurrently with gold as a double standard.

The other, and much more numerous class, while objecting to a system of confining the paper to strict convertibility into either of the metals, and urging a more general facility, and a permanent enlargement of the medium of paper and credit, have not, as far as I can find, given any distinct or intelligible view of the principle of limitation which they would substitute for that which arises out of the power of the holder of the paper to demand payment of it in coin.

I propose to bestow a few remarks upon the views of each of these classes who are opposed to the present standard as it exists by the mint regulations; but before concluding the view of the alternative of the continuance of the system of the Bank of England, or of the substitution of either of the other schemes proposed, I have merely to observe, that nothing has here been said upon the question of the saving which it is supposed would accrue to the public by the institution of a national bank, both in respect of the profit now made by the Bank of England on the circulation of paper, and in respect of the charge on the management of the public debt. These, however, are points quite distinct from the questions relating to the best regulation of the currency, which have alone here constituted the subject of enquiry. I will therefore only observe in passing, that the principle of participation by the public in the profit upon the issues of paper by the Bank of England, and by other banks, is recognized by the stamps, or composition for stamps, on the notes issued. It is a question of quantum, and, with the charge for management of the public debt, must be a mere matter of bargain, and not a question of system or principle.

SECTION 5.—*On the Effects of a Silver Standard.*

The alteration from a gold to a silver standard has been chiefly advocated with the real, although not always avowed, view of depreciation.

In the event of silver being valued according to the old mint regulations at *5s. 2d.* the ounce, and according to the excess of that price above the actual market price of about *5s.*, at which it has ranged for many years past, the depreciation, compared with the present gold standard, might be estimated at about 3½ per cent. A direct and clear depreciation to at least this extent is mostly contemplated by the propounders of a silver standard; but a further, although less obvious depreciation, is considered as following the substitution, namely, the effect of the disengagement of so much gold on the permanent value of the currency, deducting, however, the increased proportion of silver which the Bank of England would have to hold in reserve. On grounds which I have stated in a former part of this work, there is reason to believe that this effect would be very trifling, and hardly perceptible. But omne ignotum pro magnifico; and the advocates for the substitution are evidently under the impression of very exaggerated notions of diminished value of the currency from this cause. As far, however, as regards depreciation, there can be no doubt, that, if the silver standard were taken at *5s. 2d.*, there would, at the present relative market prices, be a diminished value of the currency to the extent of the difference, with some further inappreciable, and probably very trifling, depreciation, by the smaller quantity of the metals required for the circulation.

If, however, depreciation of the value of the currency were the main object of the often re-

peated recommendations to substitute a silver or a double standard for the present gold standard, the object might be equally accomplished, and with less inconvenience and as much honesty, by raising the denomination or lowering the standard of the present gold coins. But if the objection proceeds exclusively on the grounds generally assumed, namely, that a silver standard would admit of a larger circulation of paper with more ease and facility, or, in other words, would require less reserve to be held by the Bank than is requisite with a gold standard, I am inclined to think that, upon a closer examination than has hitherto been given to the subject, it will be found that there is little, if any, reason for this ground of preference of a silver standard.

There are three reasons, for any one or more of which it may, according to circumstances, be supposed that a less reserve will be required to be held by the Bank with a silver than with a gold standard.

One of the reasons is, that the proportion of the quantity of gold in the countries with which we hold commercial intercourse is so small, compared with the quantity of silver, having in view their respective uses, that a moderate extra demand for the former by this country is calculated to raise its value, compared with silver, in an inordinate degree. If this were the case, and if the Bank, with a considerable amount of silver in its coffers, in 1825, in 1828, in 1836, or in 1839, had experienced an inability to find a market for the silver, and so to exchange it for gold, upon any terms, or even on such terms only as would entail on the Bank a great sacrifice, some weight might be attached to this reason. But, in point of fact, the experience of each and all of those periods is quite decisive in the negative of the alleged reason; for in all and each of those

cases it was found that the silver bullion was fully as available as the gold in redressing the exchanges. The Bank, in the interval between 1828 and 1832, remitted to the continent about a million of silver, which was equivalent to the purchase of so much gold. At the same time their selling the silver in this market would have been a preferable course to that of remitting it.

Another reason is, that from its less portableness there would, in the event of unusual internal demand for bullion, whether for purposes of hoarding or in consequence of discredit, be less facility to holders of notes for bringing away large sums. Contemplating, therefore, only internal demand, it may be admitted that the Bank might require a somewhat less reserve of bullion. The difference, however, in this point of view, is so little as to be hardly worth mentioning.

The third reason supposed for a less reserve is, that as the charges on the exportation of silver, the more bulky article, are greater than on gold, the expansion of paper may proceed further with a silver standard before the check operates than with a gold standard. The difference of expense on the transmission is, I believe, not so much as $\frac{1}{2}$ per cent.; but it matters not in the question of the relative restrictiveness between a gold and silver standard; because, supposing a balance against this country of foreign payments, the exchange must fall sufficiently to compensate for the greater expense of transmission; and when once this is passed the drain is as great in the one case as in the other, and requires as great an effort on the part of the Bank to counteract it; while exactly in the proportion of the difference of expense of transmission, which might occasion a trifling delay before the check began to operate, would be the operation of that expense, in a contrary direction, by the delay before the turn of

the exchange in our favour. The additional charges on importation would be exactly equal in retarding the reflux of the silver, thus exactly in the same proportion keeping up the pressure on the circulation.

Among other disadvantages supposed to attend the gold standard, apart from any view to depreciation by the substitution of silver, are the following:—

One of them is, that of the want of an exact par of exchange with other states, from our not having the same standard, theirs being silver. That, however, is not literally the case; because France, and recently America and Russia, have what is called a double standard, although, in point of fact, silver is alone the actual standard in France as the current money, gold hardly, if ever, entering into payment, except at an agio; while the mint regulations of America and Russia are too recent to admit of judging of their working. But supposing theirs and all the others to be strictly silver, as long as they present markets for gold, which all of them do, at a very trifling variation in the price measured in silver, or, as it is termed, in the agio, there is not the slightest difficulty or disadvantage arising from it in money dealings with the continent of Europe, or with America, or indeed with any part of the globe. But there is one point of view in which, if ours were the only gold standard, it would be an advantage, instead of the reverse, as is commonly supposed; and that is, that in the event, such as at the close of 1825 and at the close of 1839, of exhaustion, or nearly so, of the Bank coffers, the process of restoring the reflux is more easily accomplished with gold than with silver, inasmuch as in drawing gold we do not so immediately act upon the currencies of the countries

from which our supplies are to be derived as we should if we required silver.

The other imputed disadvantage of a gold standard marks an astounding degree of ignorance, not only of the principles of currency but of the most commonly received principles of trade, on the part of the persons urging it. It is neither more nor less than this; that whereas gold being alone the standard, and coin being obtainable at par for gold bullion sent to the mint, silver must be sold in the market as merchandize, whether for home consumption or for exportation, because the mint is not open to it as it is for gold. It is contended by these reasoners, that this is a hardship upon our merchants, by narrowing the returns for their exports. It is no hardship at all; silver is as readily obtained and sent to this country, if the exchange answers, as gold. There is always a market for silver in this country for any quantity, and the utmost variation in the market price is very trifling; rarely so much as one per cent.; but, for this variation, trifling as it is, the merchant shipping it obtains a corresponding abatement in the price. As to the hardship or injustice of being debarred from taking the silver to the mint to be coined gratuitously (as gold is), the Cornish miner might equally complain, that he has not the power of getting a better price for his copper, by having it coined at the mint, and made a legal tender, than by selling it in the market. And with still more reason might the exporter of goods to Chili or Cuba declaim against the policy by which the copper which he gets in return should be excluded, not only from the mint, but from any market at all, for consumption in this country. The claim is the most absurd imaginable if supposed to be on the part of merchants; and the objection, consequently, to a gold

standard, on that ground, is perfectly frivolous.* The merchants are bound to regulate themselves by the laws as they find them; the only parties to be considered in the question of any alteration of them are the public.

So much, then, for the arguments in favour of the change to a silver standard, which are neither more nor less than pleas for depreciation, and consequently for debtors generally at the expense of their creditors, in violation of the broadest principles of justice and sound policy; while in other respects it would be the substitution of the less convenient for the most convenient description of currency.

Section 6.—*On the Effects of a Double Standard.*

With regard to a double or concurrent standard, as it has been called, of gold and silver, it has been to me a subject of constant wonder how it could be that projects for placing our currency on such a footing should ever have been put forth by persons entitled to have any attention paid to their opinions.

There is no one more disposed than I am to admit the force of disturbing causes, in qualifying the application of general principles to the actual course of affairs; but the principle involved in the question, whether one or two (and if two, why not three or more?) metals should constitute the standard of value in the interchange of commodities, and of property of all kinds, is so wholly

* It is so frivolous and absurd, that it may be supposed that I have merely *imagined* such an objection. But I have known it repeatedly urged, and it is gravely stated and declaimed upon in a recent pamphlet, entitled, "Corn and Currency; or how "shall we get through the Winter? By a Merchant."

deducible from a clear view of the uses and purposes contemplated by the establishment of any standard, as a medium of exchanges, and as the commodity stipulated in contracts, that the determination of the question, in its practical application, has been considered, by all writers of any eminence on the subject, as proceeding exclusively on general grounds of consistent reasoning, and not dependent upon particular facts, as to the position of any country with reference to its commerce or its banking institutions. It has been treated, and justly so, as determinable on scientific principles only. That one metal only should be the standard is accordingly a point upon which scientific writers, Locke, Harris, Adam Smith, Ricardo, Mill, Senior, M'Culloch, &c., are all agreed. And to this host of authorities, in accordance, moreover, with the plain obvious purpose and meaning of a standard of value, the numerous bodies and persons who propose the change, upon the ground of the too great restrictiveness of the present system of convertibility of the paper into gold, have only to oppose the authority of Lord Ashburton.

As far as I have been able to collect of Lord Ashburton's reasons in favour of a double standard, they resolve themselves into the supposition, that it would afford more ease and facility to the Bank in maintaining a larger circulation of paper, or the same circulation with a less reserve of bullion, than under the present standard. This supposition would be well founded only if the variations between gold and silver were considerable, and alternately on one side and the other; and in this case, exactly in proportion as the facility to the Bank would be greater, by so much the greater would be the inconvenience to the public, by the uncertainty to which the option of the debtors would expose the transactions which

were the foundations of the debt. Such uncertainty would be particularly objectionable in our foreign commercial relations, as it would necessarily entail a wider range of fluctuation in the exchanges than under a single standard. If, however, the variations between the two metals should be very small, in that proportion would the convenience, or, as Lord Ashburton terms it, the ease and facility, be less to the Bank and to debtors generally, and in the same degree would the inconvenience to the public be diminished. But to whatever extent the difference might be, it would still be an inconvenience. In his recommendation of the double standard Lord Ashburton referred to the example of France, in proof of the convenient working of the system; but that example furnishes no proof at all, inasmuch as the standard in France is, and has been for a long time past, for all practical purposes, of silver only, gold, as I have before observed, having been invariably at an agio or a premium upon the relative proportions fixed by the mint regulations; and if the substitution of a double standard proposed for this country were to be on the same footing as in France, the observations which I have already made on the comparative restrictiveness of a silver standard would apply to this nominal double standard.

Section 7.—*On a System of Paper Circulation without a defined Principle of Limitation.*

The most specious and the most formidable, however, of the opponents of the present system of our currency, as being too restrictive, are those who contend that an enlargement of the circulation ought to keep pace with the

growth of the population, and of the wealth, and, consequently, of the trade of the community, or of the world; and that the necessity of preventing the circulation from acquiring that enlargement, by limiting the paper to so much only as can be converted at the will of the holders into the precious metals, is repressive of enterprize and industry, and of improvements of all kinds, and thus prevents the due development of the energies and resources of the community. This is the theory prevalent among landlords, merchants, and tradesmen. It includes also a great proportion of the working classes, who care not about any reduction of the prices of necessaries, but look to obtaining, as the consequence of an enlargement of paper issues, an increase of wages, in a much greater proportion than the rise of necessaries. It is the prevalence of an impression of this kind that has produced the apathy so strikingly observable in the public on occasion of the recent critical state of the Bank. So far was there from any general feeling of apprehension or distrust arising from the apparent probability of a suspension of cash payments, that it was reasoned upon with perfect coolness, and with a sort of supercilious expression of surprize at the supposition, that such an event could in any way be considered as a calamity, instead of being, as they evidently thought it, the harbinger of a better state of things, by allowing of a more permanently enlarged circulation.

Strange as it may seem, there were persons of wealth and consideration in the banking and mercantile world, who, as far as I could make out, participated in opinions, if not identical with these, very nearly allied to them. I have more than once met with persons of this description, who, in 1836, and again in 1839, when referring to an incipient difficulty in the negociation of bills and other securities, said very significantly, "You may

"depend upon it that there is not gold enough "in the world *to support* the great increase of "commerce." It was in vain to ask of them, upon what grounds, other than the too great quantity of paper and credit, they inferred the too small quantity of gold, seeing that a given quantity of gold would not, at the very time they were speaking, buy more silver, or so much of copper, or tin, or lead, or iron, or corn, or silk, or of most other raw materials or finished work, or of labour, as it would have purchased five or ten years ago. And when these persons were further asked, what principle of limitation they would propose to substitute for that which ultimately confined the paper and credit to such an amount as could be converted into coin; I could never make out an intelligible answer. If the want of gold alone, and not of silver, were the difficulty in maintaining an enlarged circulation, the banks of the United States, where silver is an unlimited tender, and where gold, by their new mint regulations, is also a tender, at a depreciated ratio to silver, thus affording the so-much-vaunted facility of a double standard, ought not to have experienced the difficulty which so many of them have found insurmountable.

It is impossible adequately to convey the views of the reasoners opposed to the convertibility of paper into gold or silver, without giving their own words. I therefore give, as a specimen of what is, with unessential variations of expression, the language common to this class of reasoners, the following extract from the leading article in one of our public prints.

The writer, after commenting, with considerable knowledge of the subject, on the statement which had just then been put forth of the affairs of the United States Bank, proceeded to make the following general remarks on the state of the currency in this country and in America:—

"We have shown, then, that the depreciation "of American property has been caused mainly, "if not entirely, by the impossibility which exists "in America to represent their property in a "metallic money. The property exists; there is "no doubt of that; but there is a want of "metallic money to represent it; and we have "shown also that the want of metallic money in "America has been mainly, if not entirely, pro-"duced by the operations of the Bank of England, "which has been also in want of metallic money; "and which, being the stronger body, has drained "the weaker one of its gold and silver. So that "it appears that the obstinacy of both countries "in persevering in this system of currency, which "occasionally requires more than all the metallic "money of the world to represent it, is at the "bottom of the mischief. Thus there is a con-"tinual struggle going on in this country and in "America between the industry and energy of "their inhabitants; the struggle of production "and the creation of wealth against the monetary "system of both countries, which is continually "beating down this industry and this energy, "and preventing the creation of wealth by its "arbitrary and absurd restrictions. England manu-"factures and America produces; this, the result "of labour, constitutes wealth to either nation; "as the population of each increases, and as the "wants of the population of each increase, there is "the opportunity for further manufacture and fur-"ther production; but if in each country there is "enacted an arbitrary law, that the value of the "interchange of such manufacture or such pro-"duction shall always be representable in a par-"ticular sort of money, which does not increase "in the same proportion, one of two things must "take place; either such manufactures or pro-"ductions must be limited to the amount of "money which exists to represent their inter-

" change, or manufactures and productions, being " constantly increased by the demands for them " of the increasing population, their values in " their interchanges must be deranged as often " as the necessity occurs, no matter from what " cause, of representing them by this limited " amount of metallic money. And such pre- " cisely is the effect periodically; such has been " the effect in the present instance of the embar- " rassment of the American currency. The " "law money," the metallic money, is wanted; " it is not procurable, because it does not exist; " but the law is peremptory, and will have pro- " perty represented by this limited sort of money; " property therefore falls in value; in value as it " is called, but, as we contend, in the "law " money" value only; its real value remains the " same; but the effect on the holders of the pro- " perty, whose business operates as compelling " them to exchange for as much of the small " amount of gold money as they can procure, is " the loss and ruin which we observe around us. " Holding these opinions, we must say, that, " applying them to the case of the banks in the " United States, we think their abandonment of " the attempt to pay their debts in a metallic " money, which is not procurable, is the best step " they could take under the circumstances. Had " they persisted in the attempt to pay in metallic " money, they would only have increased their " difficulties and added to their losses, and its " effect would have been generally on America " most ruinous; for the consequence of such an " attempt would have been, to cause all American " goods to fall to almost nothing; and the ba- " lance being against America, in favour of this " country, that is to say, America being in debt " to this country, which she must pay by her " produce, the result would have been, that she " would pay to her English creditors goods at a

"low price which she had contracted at a high "price, and would thereby have paid her debt "two or three times over in proportion to the "depreciation of her produce. This would have "been manifestly a cruel and glaring injustice to "the Americans; for, viewing the case between "the two nations as between two individuals, it "would be as if the creditor, who had lent his "money on the security of property estimated at "a certain value, were by his superior combi- "nations to cause that property to be depreciated "to half its value, and so take double the pro- "perty in satisfaction of his debt. Such would "now be the injustice inflicted on America had "she submitted to pay her debt at its appreci- "ation in a metallic money value in this time of "metallic money scarcity. In fact she would "have to pay two bales of cotton instead of one, "or some such proportion. This, we say, would "be an injustice inflicted on America which we "are quite sure is neither nationally nor indi- "vidually desired. By the suspension of specie "payment the value of all sorts of property in "America will be supported, and her merchants "will be better able, and more quickly, to dis- "charge their debt to this country. We will "add, that had the Bank of England been able "to take this step some months ago, most of the "embarrassments which have taken place through- "out Europe, in consequence of the measures of "the Bank of England to keep gold in this "country, would have been prevented."

It is not my intention to enter into a critical examination of all the fallacies which pervade the reasoning in this extract; but as it conveys, as concisely as in any instance that I have met with, the views which prevail to a considerable extent in this country, but still more extensively in America, among the partisans of a system of currency which should have no defined principle of

limitation, or, in other words, no fixed standard of value, a few remarks upon it may not be out of place, in this concluding part of my brief survey of the several schemes by which it has been proposed to supersede our existing standard of value.

I would first, however, observe on an error of fact in the assertion, that the want of metallic money in America has been mainly, if not entirely, produced by the operations of the Bank of England. This is a statement which has been prominently put forth in the several American papers on the part of the suspended banks, as a main ground of justification of their suspension, and it has been repeated in some of the newspapers and pamphlets in this country, either as espousing the interests of those banks, or as furnishing matter of charge against the Bank of England. There is not, however, the shadow of foundation for the assertion. It was the operations of the American banks in their system of reckless extension of paper and credit,—it was the overbanking and the overtrading in the United States, connected more especially with their bolstering of the cotton market (too much favoured, it is but too true, by the assistance of the Bank of England in 1837 and 1838), that contributed in a considerable degree to the inconvenient drain of the metals from this country. Not to mention the amount of bullion shipped direct thither in 1838, the payments which have been made from hence in 1839, directly or indirectly, *for American account*, to the continent of Europe, as well as to the East Indies and other parts, has greatly exceeded the sums, amounting collectively, however, to a small matter, which came from the United States as forced remittances in the last six months of 1839. And there can be no doubt that one of the principal causes of the pressure on the money market has been, the enormous amount of Ameri-

can securities which had been forced upon it. So much for the statement of fact. Now as to the reasoning.

The writer states the impossibility which exists in America to *represent* their *property* in a metallic money. I have always considered the term *representation* as a source of extraordinary confusion, when used, as it frequently is, in discussions on the currency. The *representation* of coin by paper money may doubtless, without any violation of propriety, be considered to convey the same meaning as *the substitution* of paper, under a principle of limitation, for coin, to serve as a medium of exchange. But what is the meaning of the inability of the Americans to *represent* their property in metallic money? The inability of the Americans, in plain and intelligible English, is, that they have given more promises to pay than they have the means of paying; and in this sense the writer says truly, that the obstinacy of both countries, in persevering in a system which calls upon the banks or individuals who have issued such promises to perform their engagements according to their tenor, (namely, to pay a certain quantity of gold or silver of given fineness), is at the bottom of the mischief, which mischief consists in the difficulty of finding in the world a sufficient quantity of the metals to enable them to discharge their engagements. If the writer has ever taken the trouble to read Adam Smith he will find that the case of the Americans is not a new one, nor depending upon any system of currency. "No complaint," says Dr. Smith, "is more common than that of a scarcity of "money. Money, like wine, must always be "scarce with those who have neither wherewithal "to buy it nor credit to borrow it. Those who "have either will seldom be in want of the money "or of the wine which they have occasion for.

"This complaint, however, of the scarcity of "money, is not always confined to improvident "spendthrifts; it is sometimes general through a "whole mercantile town and the country in its "neighbourhood. *Overtrading* is the common "cause of it. Sober men, whose projects have "been disproportioned to their capitals, are as "likely to have neither wherewithal to buy money "nor credit to borrow it, as prodigals whose ex-"pense has been disproportioned to their revenue. "Before their projects can be brought to bear "their stock is gone, and their credit with it. "They run about to borrow money every where, "and every body tells them that they have none to "lend."—*Wealth of Nations, M'Culloch's edition, p.* 191.

But the writer goes on to say, "'the law money,' "the metallic money, is wanted; it is not procur-"able, because it does not exist." This is rather a startling proposition; it is, however, qualified as follows: "But the law is peremptory, and will "have property represented by this *limited* sort of "money; property, therefore, falls in value; in "value, as it is called, but, as we contend, in the "'law money' value only; its real value remains "the same." Thus it seems that the money exists, but is *limited;* and is so limited that property should not be valued in such money, but in real value. But what is the measure of such real value? Some arbitrary standard which any person may set up as his *sense of value.* In the debates in the House of Commons in 1811 on Mr. Vansittant's ever memorable resolutions, Lord Castlereagh contended that coin, and not bullion, was the measure of value, and that, according *to a sense of value* as measured in all other commodities, bullion excepted, the paper had not been depreciated. This reasoning drew forth

from Mr. Canning the following indignant and brilliant burst in reply:—

"'The coin,' says a noble lord who spoke last "night, 'is (or was) the standard of that paper.' "But this description does not advance us a "single step, for the question still remains 'What "'is the standard of the coin? What is that "'common measure to which coin and paper "'may be equally referred, for the purpose of "'ascertaining their agreement or disagreement "'with it, and with each other?'

"The noble lord (Castlereagh) has indeed "devised a singular definition of this measure, in "which I should be curious to know whether the "honourable gentleman concurs. He compares "it to 'a sense of value in reference to currency "'as compared with commodities.' I hope I do "not misquote him. To the best of my recol-"lection these were his very words: 'A sense "'of value'!!! But whose sense? With whom "is it to originate, and how is it to be communi-"cated to others; who is to promulgate, who is "to acknowledge, or who is to enforce it? How "is it to be defined? and how is it to be regulated? "what ingenuity shall calculate, or what autho-"rity control its fluctuation? Is the 'sense' of "to-day the same as that of yesterday, and will it "be unchanged to-morrow? It does fill me with "astonishment that any man of an accurate and "reasoning mind should not perceive that this "wild and dangerous principle (if principle it can "be called) would throw loose all the transactions "of private life,—all contracts and pecuniary bar-"gains,—by leaving them to be measured from "day to day, and from hour to hour, by no other "rule than that of the fancies and interests of "each individual, conflicting with the fancies and "interests of his neighbour."

But even with an exclusive paper circulation (unless it should proceed, like the French assignats, by progressive depreciation from excess, to final extinction), if a limit were arrived at of any kind, it would be found, however and whenever applied, to be extremely inconvenient, in cases where engagements on credit were beyond the means of payment, and there would then be as much complaint of a want of paper as there is at present of a want of gold and silver. During the Bank restriction, unscientific and apparently lax as was the principle of limitation applied to the circulation, it yet operated so severely, that in the occasional reactions from overbanking and overtrading, the difficulty of obtaining Bank of England notes was much greater than that of obtaining means of payment of pecuniary engagements in a convertible state of the paper at any time, except in 1825–6. I mean the period of 1810–11, when the state of commercial discredit and distress were extreme, and when the difference between the prices of commodities on the usual credit and those for prompt payment in Bank of England notes, was as great as in 1825–6, if not greater.

There is indeed no conclusion more fully established by the concurrence of universal experience, and sanctioned by the practice of mankind, from the dawn of civilization to the present time, than that gold and silver form the best instrument of exchange, and the best standard or principle of limitation that can be devised for every form of credit.

Divested, however, of the confused phraseology of the paper money school, the probable meaning of those persons whom I have referred to, as contending that there is not enough of the precious metals existing to support the extended commerce of the world, I conceive to be, that the production of gold and silver does not keep pace with the

increase of population and of manufacturing industry, nor, consequently, with the increase of transactions requiring the intervention of those metals, and their paper substitutes *at par value*, as a medium or instrument of exchange, and as the commodity which is stipulated in all pecuniary contracts; in other words, that the supply of the metals does not keep pace with the demand, and that they are experiencing an increased value.

As it is principally with reference to the conduct of the suspended American banks that the plea of increased value, from the too limited quantity of the precious metals, has been urged in the apologetic article which I have quoted, I have to offer a few remarks on that plea, as also upon some other of the arguments that are adduced in justification of those banks.

Section 8.—*Digression on the suspended American Banks.*

If it were true that the precious metals were experiencing an increased value, it would not, as a distinct ground, form a justification of the suspension of payment by the American banks. They promised to pay in gold or silver (or their equivalent in value), and not in cotton or other commodities. But are there any grounds for inferring an increased value, or purchasing power, of the metals, in the commercial world, within the period that can by possibility be supposed to operate in such a way as to affect the question, whether the American banks, or the debtors generally, are now called upon, for the performance of their obligations, to pay a commodity which possesses greater value than they contemplated when they entered into those obligations to pay, at sti-

pulated periods, a specific quantity of that commodity, or its equivalent?

Of the value of the precious metals, in their general purchasing power, there is no certain criterion. Among the writers of eminence who have entered into the question, some, as Dr. Adam Smith, with the French authors whom he has quoted, and more recently the Marquis Garnier, considered the price of wheat, when spread over the average of a great number of years, to afford the best means of judging; while Mr. Malthus and others relied upon the rate of wages of common day labour, as a better guide. Arthur Young took, not only the prices of corn and of labour, but of some other articles of extensive use, into the comparison. Now, taking the prices of provisions and of the lower metals, and of the raw materials of our principal manufactures, the greater part of them were higher, and money wages were not lower, in 1839 than they were in 1838. And a comparison, limited to that period, is sufficient to embrace the bulk of the pending contracts for payment, proving, consequently, that there is no pretence for the plea of any observable increase of the value of the precious metals.

That a period so limited is insufficient to serve as a criterion, or even as a strong presumption of what may be the tendency to a greater or less value of gold and silver in a more general point of view, may be readily admitted, and that a longer period is necessary for the purpose. If, then, we take a period of ten years, and compare the prices, in 1829, of the articles in the tables appended to the former part of this work, with the quotations of the same articles in the appendix to the present, and with wages, it will be seen that the range of prices has, in the latter period, been decidedly higher, leaving no possible ground for the supposition of an increasing value of the metals.

And the same result, in perhaps a more striking degree, would appear, if the value of property in land and houses were compared in those two periods.

In the United States of America, inasmuch as credit and the immediate influence of banking advances were extended in an undue degree to particular objects, those objects bore an inflated price. This was the case with lands, houses, and goods bought on credit; it was likewise the case with cotton in a pre-eminent degree, as being an object to which the abuse of banking was, in a special manner, directed; it was, in a smaller degree, also the case with some other descriptions of produce. But the prices of provisions do not appear to have been under the influence of banking operations, beyond the degree indicated by a difference in the exchange. The price of flour, for instance, at New York, in 1835, when general credit and banking accommodation were in their highest state, was between five and six dollars the barrel; and, after the intermediate rise in 1836 and 1837, caused by the failure of the wheat and corn crops of those two years, the effect of renewed abundance in the crops of 1838 and 1839 has simply brought back the price, in the most restricted state of circulation and of credit, to what it had been previous to the seasons of comparative dearth.

If lands and houses, and produce, and the stocks of imported commodities in their stores, were bought and held on credit, or with promises to pay, beyond the means of the parties to make the payment, and beyond the ordinary rate of demand for such property, it is perfectly natural that prices founded on such purchases could not be maintained when offered for sale to the only persons *who were entitled to buy them*; namely, those who were disposed and *able to pay for them*. And

it is well known that sales made to satisfy engagements entered into beyond the means of the debtors are commonly sold at a depression as much below the fair value as the credit prices were above the fair value; but that is no reason for not paying the debts, if so required, by realizing the property as far as it will go.

The American suspended banks, and their apologists in this country as well as in the United States, seem to have very peculiar notions of the degree of moral obligation attached to pecuniary engagements. There are two grounds, according to their doctrine, on which the banks are to be considered as not bound to the strict fulfilment of their engagements.

One of these, (the observation, indeed, applies to debtors generally,) which, in accordance with the opinions expressed in the preceding extract, refers to the too great restrictiveness of the currency, by confinement to the value of gold and silver, has already been disposed of.

The other ground, according to the doctrine in question, on which the suspension of the southern and western banks in the United States has been attempted to be justified, is, that if they did not continue to discount and make advances, the merchants would fail, and there would be a general prostration, if not destruction, of all trade. This plea is a fit commentary, in the nature of a caricature, upon the system of the Bank of England, in its assumption of a duty to support commercial credit at the risk of its own credit, and of its means of fulfilling its own engagements. The New York and other eastern banks of the United States have, fortunately for the cause of morality in banking, resisted the claims of applicants for discount beyond the extent which could be satisfied consistently with the maintenance of their own engagements. They

very properly, and very unlike the Philadelphia banks*, declined to fail in the payment of their own obligations, according to the clear tenor of them, on the pretence of saving the merchants

* The following is extracted from the American papers:—
" *An Address to the Citizens of Pennsylvania from the Phil-*
" *adelphia Banks, October* 23, 1839.

" The banks of Philadelphia were quite as ready to resume as " those who were most anxious to begin, for they had greatly " reduced their liabilities, and one of their number had no less " than 7,357,000 dollars in its vaults; but they believed that " the country at large had not yet sufficiently recovered from " the violent shock to be ready for resumption. They recollected " that, under similar circumstances, the Bank of England had " continued her suspension for upwards of twenty years; and " they avowed their apprehension that a resumption, in the " unprepared state of the country, must be followed by a " relapse. Overruled in this judgment, and obliged, at the " hazard of greater evils, to unite in the resumption, they sin- " cerely co-operated in it; and being satisfied that the mea- " sure, in order to be useful or permanent, must be general, " they made great efforts, and *large advances to the southern* " *and south-western states*, who were thus enabled, almost ex- " clusively by the assistance of the Philadelphia banks, to " unite in the resumption. But the inefficiency of the measure " soon became apparent." [This is surely not to be wondered at, seeing that, by way of putting themselves in a better condition for resuming cash payments, they made large advances to the southern and south-western states.]

The Address then goes on to say,—" Under these circum- " stances they have had to adopt one of two alternatives,— " either to force the community, by sacrifices of its property, to " pay its debts in gold and silver, to be shipped forthwith to " England, or else to resort to a temporary suspension, until " the community, as well as the banks, could have time to " recover from the effect of these foreign troubles. They have " not hesitated to prefer the latter, as being the most conducive " to the true interests of the state."

It cannot fail of being observed, that, independently of the strange reasoning in point of principle on which the suspension of cash payments is justified, the Philadelphia banks gravely remind the citizens of Pennsylvania, that, under *similar circumstances*, the Bank of England had continued her suspension for upwards of twenty years. This is indeed an instance of similarity most dissimilar in all essential particulars affecting the morality of the proceeding, as regards the banks in question.

from failure. The resolution, however, of the eastern banks, so creditable to themselves, and so beneficial in its ultimate consequences to the eventual stability of the trade and the banking of those states, has been attended with a consequence, which the opponents of the Bank of England, and the advocates of competition of banks of issue, would do well to ruminate upon; and that is, that while the effort of contraction requisite to enable them to continue their payments in specie has been in progress, the rate of discount has risen enormously, namely, to two and three, and, in some particular instances, I am assured, to the rate of five per cent. per month upon unexceptionable acceptances.

It did not enter as an essential part into the plan of this work to investigate and criticise the character of American banking, but recent events have forced it in an extraordinary degree upon the attention of the public in this country; and questions arising out of the suspension of the Philadelphia and other banks of the southern and

They agree in the fact of suspension, but in all other respects they differ most widely. In the case of the Bank of England, the adverse exchanges, notwithstanding an unparallelled, sudden, and great foreign expenditure in 1795-6, were surmounted by an extraordinary contraction of issues, when a run, arising from internal panic, caused by foreign invasion and a general discredit of paper, induced the government (prematurely, as I think,) to interfere, by a restriction on cash payments. But in two years afterwards, without the *slightest intervening depreciation of its paper*, the Bank officially communicated its ability and readiness to resume payments in specie. And it was distinctly an act of the state, then engaged in a most extensive and expensive war, and for state purposes, that the proposal of the Bank to resume was negatived by the government, and the suspension continued, distinctly upon considerations of state policy, throughout the whole period of the war. I have never been satisfied with the policy of the suspension, and the continuance of it; but to compare that suspension with the suspension of the American banks is a most wonderful stretch of the powers of comparing things dissimilar.

western states of America have recently formed so important a consideration in discussions upon the principles of banking, and upon the connection between paper money, according as it is administered, and prices, that a reference to them in a treatise upon prices and the circulation might naturally be looked for. But it is only a cursory allusion to them that my limits allow; and if in alluding to them I have expressed myself in terms of animadversion upon the principles by which the recent suspension of cash payments by some of those banks has been justified, it is because I consider that the reasonings which have been put forth by the suspending banks, and repeated by their advocates in this country, are such as are calculated, if countenanced by public opinion, to undermine all just grounds of confidence in banking institutions, and greatly to impair the standard of morality in trade.

While this work has been in the press, the Message of the President of the United States, on its meeting in December last, has been received. A considerable portion of the Message is devoted to remarks on the abuses of banking which have produced so serious a derangement of trade and commercial credit, and have interfered so materially with the financial arrangements of the government. The remarks of the President bear so strongly in support of the opinions which I entertain, and which I have ventured to express, on the subject of American banking, reprobating, as he does, on the very grounds which I have stated, the attempts at justification on the part of the United States Bank of Pennsylvania, and of the other suspended banks, that I cannot resist the temptation of the opportunity, still open to me, of here inserting the following extract from it.

The President, after stating objections arising out of occurrences in 1836 and 1837, to allowing

the custody of the government funds to be committed to any banking institution, goes on to say,

"Recent events have also continued to develope "new objections to such a connection. Seldom is "any bank, under the existing system and practice, able to meet, on demand, all its liabilities "for deposits and notes in circulation. It maintains specie payments, and transacts a profitable "business, only by the confidence of the people "in its solvency; and whenever this is destroyed "the demands of its depositors and note holders—"pressed more rapidly than it can make collections from its debtors—force it to stop payment This loss of payment, with its consequences, occurred in 1837, and afforded the "apology of the banks for their suspension. The "public then acquiesced in the validity of the "excuse; and, while the state legislatures did "not exact from them their forfeited charters, "Congress, in accordance with the recommendation of the executive, allowed them time to "pay over the public money they held, although "compelled to issue treasury notes to supply the "deficiency thus created.

"It now appears that there are other motives "than a want of public confidence under which "the banks seek to justify themselves in a refusal "to meet their obligations. Scarcely were the "country and government relieved, in a degree, "from the difficulties occasioned by the general "suspension of 1837, when a partial one, occurring within thirty months of the former, produced new and serious embarrassments, though "it had no palliation in such circumstances as "were alleged in justification of that which had "previously taken place. There was nothing in "the condition of the country to endanger a well-managed banking institution; commerce was "deranged by no foreign war; every branch of

" manufacturing industry was crowned with rich " rewards; and the more than usual abundance " of our harvests, after supplying our domestic " wants, had left our granaries and storehouses " filled with a surplus for exportation. It is in " the midst of this that an irredeemable and " depreciated paper currency is entailed upon the " people by a large portion of the banks. They " are not driven to it by the exhibition of a loss " of public confidence, or of a sudden pressure " from their depositors or of note holders, *but they* " *excuse themselves by alleging, that the current of* " *business, and exchange with foreign countries,* " *which draws the precious metals from their vaults,* " *would require, in order to meet it, a larger cur-* " *tailment of their loans to a comparatively small* " *portion of the community than it will be con-* " *venient for them to bear, or perhaps safe for the* " *banks to exact.* The plea has ceased to be one " of necessity. *Convenience and policy are now* " *deemed sufficient to warrant these institutions in* " *disregarding their solemn obligations.* Such con- " duct is not merely an injury to individual cre- " ditors, but it is a wrong to the whole com- " munity, from whose liberality they hold most " valuable privileges—whose rights they violate, " whose business they derange, and the value of " whose property they render unstable and in- " secure. It must be evident that this *new ground* " *for bank suspensions*, in reference to which their " action is not only disconnected with, but wholly " independent of, that of the public, *gives a cha-* " *racter to their suspensions more alarming than* " *any which they exhibited before*, and greatly " increases the impropriety of relying on the " banks in the transactions of government.

" A large and highly respectable portion of our " banking institutions are, it affords me unfeigned " pleasure to state, exempted from all blame on

"account of this second delinquency. *They have,* "*to their great credit, not only continued to meet* "*their demands, but have even repudiated the* "*grounds of suspension now resorted to.* It is "only by such a course that the confidence and "goodwill of the community can be preserved, "and, in the sequel, the best interests of the "institutions themselves promoted.

"New dangers to the banks are also daily dis-"closed, from the extension of that system of "extravagant credit of which they are the pillars. "Formerly our foreign commerce was principally "founded on an exchange of commodities, includ-"ing the precious metals, and leaving in its trans-"actions but little foreign debt. Such is not now "the case. Aided by the facilities afforded by "the banks, *mere credit has become too commonly* "*the basis of trade.* Many of the banks them-"selves, not content with largely stimulating this "system among others, have usurped the business, "while they impair the stability, of the mercantile "community; *they have become borrowers instead* "*of lenders;* they establish their agencies abroad; "they deal largely in stocks and merchandize; "they encourage the issue of state securities "until the foreign market is glutted with them; "and, unsatisfied with the legitimate use of their "own capital, and the exercise of their lawful "privileges, they raise by large loans additional "means for every variety of speculation. The "disasters attendant on this deviation from the "former course of business in the country are "now shared alike by banks and individuals, to "an extent of which there is perhaps no previous "example in the annals of our country. So long "as a willingness of the foreign lender, and a "sufficient export of our productions to meet any "necessary partial payments, leave the flow of "credit undisturbed, all appears to be prosperous;

" but as soon as it is checked by any hesitation " abroad, or by an inability to make payment " there in our productions, the evils of the system " are disclosed. The paper currency, which " might serve for domestic purposes, is useless to " pay the debt due in Europe. Gold and silver " are therefore drawn in exchange for their own " notes, which are as unavailable to them as they " are to the merchants, to meet the foreign de- " mand. The calls of the banks, therefore, in " such emergencies of necessity, exceed their " demand, and produce a corresponding curtail- " ment of their accommodations and of the cur- " rency, at the very moment when the state of " trade renders it most inconvenient to be borne. " The intensity of this pressure on the community " is in proportion to the previous liberality of " credit and consequent expansion of the cur- " rency; forced sales of property are made at the " time when the means of purchasing are most " reduced, and the worst calamities to individuals " are only at last arrested by an open violation of " their obligations by the banks, a refusal to pay " specie for their notes, and an imposition upon " the community of a fluctuating and depreciated " currency.

" These consequences are inherent in the present " system. They are not influenced by the banks " being large or small; created by national or state " governments: they are the results of the irre- " sistible laws of trade and credit. In the recent " events, which have so strikingly illustrated the " certain effects of these laws, we have seen the " bank of the largest capital in the union, estab- " lished under a national charter, and lately " strengthened, as we were authoritatively in- " formed, by exchanging that for a state charter, " with new and unusual privileges,—in a condition, " too, as it was said, of entire soundness and great

" prosperity,—not merely unable to resist these " effects, but the first to yield to them.

" Nor is it to be overlooked that there exists a " chain of necessary dependence among these in- " stitutions, which obliges them, to a great extent, " to follow the course of others, notwithstanding " its injustice to their own immediate creditors, or " injury to the particular community in which they " are placed. This dependence of a bank, which " is in proportion to the extent of its debts for " circulation and deposits, is not merely on others " in its own vicinity, but on all those which " connect it with the centre of trade. Distant " banks may fail, without seriously affecting those " in our principal commercial cities; but the " failure of the latter is felt at the extremities of " the union. The suspension at New York in " 1837 was everywhere, with very few excep- " tions, followed, as soon as it was known; that " recently at Philadelphia immediately affected " the banks of the south and west in a similar " manner. The dependence of our whole banking " system on the institutions in a few large cities " is not found in the laws of their organization, " but in those of trade and exchange. The banks " at that centre to which currency flows, and " where it is required in payments for merchan- " dize, hold the power of controlling those in " regions whence it comes, while the latter possess " no means of restraining them; so that the value " of individual property, and the prosperity of " trade, through the whole interior of the country, " are made to depend on the good or bad manage- " ment of the banking institutions in the great " seats of trade on the sea-board.

" But this chain of dependence does not stop " here. It does not terminate in Philadelphia or " New York. It reaches across the ocean, and " ends in London, the centre of the credit system.

"The same laws of trade which gave to the banks "in our principal cities power over the whole "banking system of the United States, subject the "former, in their turn, to the money power in "Great Britain. It is not denied that the sus-"pension of the New York banks in 1837, which "was followed in quick succession throughout the "union, was produced by an application of that "power; and it is now alleged, in extenuation of "the present condition of so large a portion of "our banks, that their embarrassments have arisen "from the same cause.

"From this influence they cannot now entirely "escape, for it has its origin in the credit cur-"rencies of the two countries; it is strengthened "by the current of trade and exchange, which "centres in London, and is rendered almost irre-"sistible by the large debts contracted there by "our merchants, our banks, and our states. It is "thus that an introduction of a new bank into the "most distant of our villages places the business "of that village within the influence of the money "power in England. It is thus that every new "debt which we contract in that country seriously "affects our own currency, and extends over the "pursuits of our citizens its powerful influence. "We cannot escape from this by making new "banks, great or small, state or national. The "same chain which binds those now existing to "the centre of this system of paper credit must "equally fetter every similar institution we create. "It is only by the extent to which this system has "been pushed of late that we have been made "fully aware of its irresistible tendency to subject "our own banks and currency to a vast controlling "power in a foreign land; and it adds a new "argument to those which illustrate their pre-"carious situation. Endangered, in the first place, "by their own mismanagement, and again by the

"conduct of every institution which connects "them with the centre of trade in our own "country, they are yet subject, beyond all this, to "the effect of whatever measures policy, necessity, "or caprice, may induce those who control the "credit of England to resort to. I mean not to "comment upon these measures, present or past, "and much less to discourage the prosecution of "fair commercial dealing between the two coun- "tries, based on reciprocal benefits; but it having "now been made manifest that the power of "inflicting these and similar injuries is, by the "resistless law of a credit currency and credit "trade, equally capable of extending their conse- "quences through all the ramifications of our "banking system, and by that means indirectly "obtaining, particularly when our banks are used "as depositories of the public moneys, a dan- "gerous political influence in the United States, I "have deemed it my duty to bring the subject to "your notice, and ask for it your serious con- "sideration."

Agreeing as I do most fully in the general scope and tenor of the observations of the President on the evils of the banking system, such as it has developed itself in action in the United States, I must be permitted to question the correctness of his views on one point. Alluding to London as the centre of the credit system, and to the dependence of the banks in the United States on the money power in Great Britain, the President adds,—"It is not denied that the suspension "of the New York banks in 1837, which was fol- "lowed in quick succession throughout the union, "was produced by an application of that power."

Referring to the remarks which I made on the plea of the suspended American banks, that it was by the "putting on of the screw" by the Bank of

England that their recent stoppage of payment in specie was caused, I have to add the following observations on the above passage of the President's Message.

Undoubtedly, if the Bank of England had in 1836 and in 1837 kept its rate of interest at four per cent., and had gone on discounting all the vast mass of circulating American bills which were pressing upon it, the American houses here, and the banks in the United States, might have gone on for some months longer. But considering the excess to which the American system of credit had already proceeded, and the accelerated rate at which it was going on, it would have argued a degree of blindness on the part of the Bank of England beyond even that with which it was justly chargeable, if it had not at length opened its eyes to the consequences, as regarded the safety of its own establishment, of allowing itself to be the passive instrument of the further extension of the system. And it is quite clear that if the Bank of England had been so infatuated as to have neglected taking measures of precaution in 1836, its own solvency would have been endangered. But so far from having exerted any power in stopping the American houses in this country, and the New York banks connected with them, the Bank of England actually *nursed them* by advances without security for several months, and it was only on seeing no end to the practice of *nursing* (which by the way was inconsistent with just principles of banking, and was the occasion of the anomalous position in which the Bank of England was placed, of having to send an agent to the United States to collect its debts,) that in 1837 it found itself compelled to discontinue its assistance. Now, a *discontinuance of assistance*, when *continued assistance* was incon-

sistent, not only with its ordinary rules, but with a consideration for its own safety, is very different from the inference to which the passage in the President's address leads, namely, that it was a voluntary exertion of power on the part of the Bank of England to stop the American banks. With much more reason might the President of the United States have inferred a dependence of the banks of America upon the money power in France, because a refusal by the French banking house of Hottinguer and Co. to accept the bills drawn upon them by the United States Bank was the proximate cause of the suspension of cash payments by the southern and western states banks.

Under the circumstances in which the government of the United States is placed, and with the experience which it has derived from the results of the system of banking and credit in that country, there can be no question, in my opinion, of the wisdom of the policy which it has announced, of divorcing itself irrevocably from all connection or communication with any of the banks, whether as depositaries of its funds, or agents for the collection and transmission of them.

The probable influence of such a determination on the part of the American government, if supported as it probably will be by Congress, on the future system of banking and credit in the United States, and the consequences, with reference to the state of the circulation in this country, involve considerations of great import, but embracing too wide a field of discussion to be here incidentally entered into.

Section 9.—*Summary of the preceding Review of the State of the Circulation, and of some of the Alterations proposed in our Banking System.*

Reverting, from this digression on American banking, to the immediate purpose in hand, it remains only to state the general conclusions that appear to be deducible from the facts and reasonings which have been laid before the reader, with a view to elucidate some of the more important features of our present system of paper circulation, and to suggest such alterations as may be best calculated to obviate the recurrence of evils which have been experienced under the existing mode ot management.

The conclusions which seem to be fairly deducible from the preceding review of the state of the circulation during the period under consideration, and of the proposed alterations in our banking system, are,—

1. That the principal evil which can be distinctly and justly ascribed to the system, as it has been administered, is the near approach to exhaustion which the Bank treasure has experienced, with the consequent imminent danger of suspension of cash payments, an event averted only by a very discreditable expedient, namely, that of resorting to aid from the bankers of Paris.

2. That considerable blame attaches to the Bank of England for not having taken earlier and more effectual measures for arresting the drain on its coffers.

3. That no consistent rule or principle is discoverable in actual application to the management of the Bank of England.

4. That the doctrine of the directors, which assumes, as an essential part of the functions of the Bank, the duty of attending to the trade and

aiding and upholding the commercial credit of the country, is unsound and unsafe. Unsound, as it impairs the reliance of individuals on their own prudence; and unsafe, as it may entail an extension of the circulation at the precise time when a view to the exchanges and the state of its coffers would enjoin a contraction.

5. That it has been a great error of the directors to attempt to conduct the management of so large an amount of liabilities upon a reserve of bullion so small as that which has existed in the average of the last seven years; a reserve more especially inadequate, seeing the tendency of the doctrine embraced by the directors, of a duty incumbent on them of attending to the trade of the country, and of aiding and upholding commercial credit.

6. That, on the other hand, the Bank is not justly chargeable with evils such as those which have been imputed to it, of having, by its expansions and contractions of the circulation, caused fluctuations in the prices of commodities, and in the state of credit and the rate of interest.

7. That the prices of commodities are not liable to be influenced in any perceptible degree by variations in the issues of the Bank, in a convertible state of the paper, according to the system by which, since 1825, those issues have been regulated.

8. That variations in the state of credit may and often do arise from circumstances extrinsic to the state of the circulation, and that no regulation of the issues of paper money can operate as an infallible preservative against occasional great fluctuations in the state of credit, and in the rate of interest.

9. That variations in the state of credit and in the rate of interest are likely to be—

1. Greatest under a system of competition of banks of issue.

2. In the next degree, under a system in which the amount of the circulation should vary in the exact manner and degree in which a perfectly metallic currency would vary.
3. In the most mitigated form and degree, under such a system as that of the Bank of England, attended, however, as that system ought to be, with more of regard to consistent principle than has hitherto been observed in the management, and subject, as a condition sine quâ non, to a provision for the maintenance of a higher average amount of treasure than the directors have hitherto thought fit to retain.

CHAPTER V.

OBSERVATIONS ON A RECENT PUBLICATION BY MR. SAMUEL JONES LOYD, "ON THE MANAGEMENT OF THE CIRCULATION, AND ON THE CONDITION AND CONDUCT OF THE BANK OF ENGLAND, AND OF THE COUNTRY ISSUES, DURING THE YEAR 1839."

SINCE the preceding pages were prepared for the press, a publication of considerable interest on the question of the currency has proceeded from the pen of Mr. Loyd, entitled "Remarks on the Management of the Circulation; and on the Condition and Conduct of the Bank of England, and of the Country Issues, during the Year 1839." As Mr. Loyd unites great experience in the business of banking with scientific views of the general principles of currency, and possesses in an eminent degree the power of luminous exposition, his opinions are calculated to produce a great impression. I cannot, therefore, as I had intended, here conclude the present work, without offering a few observations on a treatise which is of such importance in its bearing on the points relating to the circulation which I had undertaken to discuss; more especially seeing that, while I concur with the writer in most of his general views on the currency, there are some very material points of practical application on which I find myself under the necessity of differing from him.

In every case in which I find that Mr. Loyd's views accord with mine, I feel additional confidence in them from that accordance; and in the instances in which I have not the advantage of his concurrence, I naturally feel some distrust of the foundation for my own conclusions; and I am anxious,

in proportion to my confidence from agreement, to feel assured of my grounds when I find my views at variance with his. If, therefore, I enter more fully into the examination of the points on which we differ, it is not because those points are the greater in number or importance, but because assent is most readily and concisely expressed, while dissent from an authority which is justly deemed to be of weight requires a careful investigation and exposition of the grounds of difference.

Of leading points of principle it is impossible that the grounds can be laid down more clearly than is done by Mr. Loyd. Most especially do I agree with him when he observes, that "the principal and most important benefit to be attained "by a due regulation of the currency, consists less "in the indirect effect which it may have in preventing violent fluctuations in the state of trade "and of prices, than in its direct tendency to protect and secure the convertibility of the notes "under all possible contingencies. Money, it must "be remembered, is not only useful as a medium "of exchange, in lieu of barter or credit, but "also as a measure of value; and when paper, in "itself possessing no intrinsic value, is used as a "substitute and representative of the precious "metals, the convertibility of that paper becomes "essential for preserving its character as a standard "of value." p. 105.

I rejoice also at finding that the results at which I had arrived from observation, confirmatory of all general reasoning on the subject of the usury law, receive the fullest corroboration from the ample experience of Mr. Loyd of the benefits derived from the recent amendment of that law.

It will have been seen, from the account which I have given (pp. 83, 92) of the several steps by which, in the descending scale of its treasure, the Bank found itself on the verge of suspension of

cash payments, that I fully agree with Mr. Loyd in the opinion, that the directors were wanting in due vigilance in not adopting earlier measures for the counteraction of the drain when the tendency to efflux became manifest, and when there was reason to suspect that the causes of it were extensive and deep seated. And nothing can be more just, or expressed in more considerate terms, than Mr. Loyd's criticism on the inconsistency exhibited between the professed rules and the conduct of the directors; to whom, with him, I am willing, at the same time, to give credit for the best intentions.

Mr. Loyd remarks upon the difficulties attending the regulation of the Bank issues, and attributes a great part of those difficulties to the incongruity involved in the system, and in the functions assumed by that establishment, rather than to any fault of the directors in the administration of that system; and he adds, "The state in which the "Bank has stood is the result. The circulation "but slightly diminished, and the securities largely "increased, whilst the drain upon the bullion has "been suffered to acquire such force, and to pro- "ceed to such an extent, as to menace the most "serious danger to the safety of our monetary "system."

Mr. Loyd then points out, as an addition to the difficulties attendant on its incongruous functions, the counteraction to which the Bank of England is liable, in its attempts to control the circulation, by the issues of the country banks.

For these evils attendant on the present system as it is now administered, Mr. Loyd strongly urges, as the only remedy, the plan to which I have before alluded, of a complete separation of the business of issue of paper from the ordinary business of banking, concentrating the business of issue for the whole kingdom under the control of a single responsible body; the circulation of

paper money, according to this plan, being supposed to be made to vary exactly as a purely metallic circulation would vary. In support of a plan of this kind, subject only to modification of details not essential to the principle, is an array of high authorities; Mr. Norman, whom I have already quoted, Colonel Torrens, Mr. Samson Ricardo, Mr. M'Culloch, and Mr. Henry Drummond. The principle of such separate business of issue, so regulated, and constituting the only source of the circulation of paper money, is unquestionably the most scientific, the most simple, and the most secure, against a suspension of cash payments, that can be adopted; and the only ground which I have ventured to suggest for hesitation, as to the policy of adopting it, is the question, whether there are not considerations of the greater convenience attending the working of the present less scientific system; considerations which, provided sufficient security can be obtained for the preservation of the constant convertibility of the paper, might be found to preponderate against the expediency of so great a change.

It seems to be assumed, and reasoned upon implicitly, by all the advocates of the proposed change, that the plan of metallic variation would be attended with less fluctuation in the rate of interest, and in the prices of commodities, than the present system of union of deposits and issues. But I have not yet seen, in any of the expositions, ably as they are stated, of the plan of separate issue, an explanation of the precise mode of operation, which should exempt a circulation of that description from the shocks to which the money market, and sometimes the markets for commodities, are exposed by revulsions of credit. They have adduced no reasons for thinking that we should not be equally liable to variations in the rate of interest in this country, arising from any

considerable fluctuations in the state of credit and in the rate of interest abroad; and they have in no instance shown, or attempted to show, that credit might not be unduly extended,—and, in cases readily conceivable, cases such as have occurred,—be equally extended under a correctly metallic variation, as it is liable to be, and as it has been, under the existing system.

It may be taken as a general rule, that whenever credit has been unduly extended there will be a revulsion and contraction proportioned in degree and extent to the previous excess of credit, such revulsion, according to the direction and extent of the previous abuse of credit, being felt in the money market, or in the markets for produce, or in both. Thus, if the undue extension of credit has prevailed only in the market for securities, the rate of interest, that is, the money market, only will be affected; if in the markets for produce, fluctuation of the prices of commodities and commercial failures will ensue; and these will, if occurring to any considerable extent, necessarily affect the money market; whereas fluctuations in the rate of interest do not necessarily affect the markets for produce.

Mr. Loyd refers to the recent instance of the state of the circulation in 1839, as one in which the system of separation would have worked beneficially. "If the contraction," he says, p. 37, "had commenced with the decrease of bullion in "the beginning of the year, when the circulation "was 18,201,000*l.*, and the bullion 9,336,000*l.*, "and had steadily accompanied it throughout, "these evils would in all probability have been "avoided. At all events, this would have been "the legitimate means for the prevention of them; "and failing the adoption of this course, a heavy "share of the consequent responsibility must "attach to the Bank."

In this I perfectly agree with Mr. Loyd; and I have, as the reader must have seen, instanced the recent circumstances of the trade and the circulation, as those in which a reduction of the issues accompanying a diminution of the stock of bullion would have been advantageous; but still more advantageous would have been the operation of the rule which I have ventured to suggest, namely, that the directors should be guided by a view to retaining a high average amount of bullion, and that they should never consider the Bank as in a perfectly satisfactory position when the treasure was under ten millions. They would, under such a rule, never have thought of volunteering shipments of bullion to the United States, in the spring of 1838, for the purpose of hastening the resumption of cash payments by the American Banks; and long before the close of 1838 they could not have failed to see the propriety of taking moderate precautionary measures for counteracting the tendency to a drain, which had then so clearly manifested itself, instead of designedly enlarging their securities as they did.

Still more beneficially, as compared with a purely metallic variation, would the regulation with a view to a high average amount of bullion have operated in 1835–6. The treasure having been reduced (from what causes it is not here necessary to inquire) to 6,000,000*l.* in 1835, the directors would not have taken the active measures which they did, by the forced increase of their securities in the autumn of 1835 and the early part of 1836, to stop the tide of the metals which was then flowing in. The stock of bullion would have been higher than it was in the spring of 1836; the circulation would have been the same as it was, being then low enough; but the rate of interest would have been higher, and the deposits would consequently have been lower, as there would not have been the same

inducement to anticipate the instalments on the West India loan; while at the same time there would not have existed the unbounded confidence in continued facility of the money market which led to the unusual extent of credits in the American trade. It must then be quite clear, that with a larger stock of bullion, and a lower amount of deposits and securities, in the spring of 1836, the position of the Bank would have been in every respect better prepared to meet the approaching revulsion of credit in the American trade, in the autumn of that year, than it proved to be, and that the revulsion, when it did occur, would have been in a mitigated degree.

It would be tedious to pursue this point further; and indeed what I have here stated is only a repetition of the reference to this period which I have before made, my excuse for such repetition being, the importance of the illustration which the circumstances of the period referred to afford of the working of the system. I will merely add, that, whether by reference to circumstances such as have occurred, or to supposable cases, it might be shown that fluctuations as great, if not greater, might, and most probably would, occur, in the rate of interest, and in the state of credit, and in the markets for produce, under a correctly metallic variation, as under the more anomalous but more accommodating system, which, by the union of circulation and deposits, allows the action of the foreign exchanges to operate upon the bullion in such a manner as that, *if the amount of it be of sufficient magnitude*, the money market may be little, if at all, disturbed. Indeed, I have placed the comparison in the light most favourable to the proposed plan of separation, because I am convinced that under such separation *the fluctuations would be more frequent, more abrupt, and sometimes of greater extent.*

The reasons which Mr. Loyd urges in favour of the proposed separation of departments appear to me to apply still more strongly in favour of the existing system, with the addition only of preserving a larger average amount of bullion. Mr. Loyd says, "She (the Bank) is bound, not "only to protect her treasure from actual ex-"haustion by foreign drain, but also to preserve "it at such an amount as shall leave her, at all "times, prepared to bear the probable or reason-"ably possible demands of internal alarm. She "must guard, not only against the actual calamity "of suspension, but against even the reasonable "apprehension of it." Now, this is precisely what I would propose, by the simple precaution of keeping up, in ordinary times, a large amount of treasure, so as to meet any extraordinary exigences with the least possible disturbance of the amount of the circulation, a general uniformity of which is highly conducive to general convenience.

Mr. Loyd adds, "and, at the same time, the "measures necessary for this purpose must be "rendered as little oppressive to the trade of "the country as is consistent with the requisite "results." In this passage Mr. Loyd, I am sorry to observe, adopts, in deprecating oppression to the trade, the language of the money market *, which implies, that the regulation of the currency should have a particular view to the trading part of the community; whereas general convenience and security are demonstrably the only legitimate objects of a well-regulated currency. But even admitting a peculiar consideration for trade, I am disposed to dissent from the conclusion, namely, "Hence

* According to that language, measures adopted by the Bank with a view to moderating the efflux of bullion are characterized, according to the degree in which they operate, as *making money tight, putting on the screw, punishing or oppressing the trade of the country.*

"the importance of making the commencement "of the action upon the circulation simultaneous "with that upon the bullion; it is thus rendered "gradual in its operation, and, therefore, compa- "ratively light in its effects."

It does not appear to be a necessary, and hardly, perhaps, a probable, consequence of the proposed separation, that every action upon the bullion by the foreign exchanges should be attended with a simultaneous action upon the amount of the circulation; by which term of circulation I mean the amount of bank notes in the hands of the public. If such, however, were shown to be the probable effect, the inconvenience might, and, I am inclined to think, would be found to be very great, compared with the present system; for, in as far as a certain degree of uniformity in the amount of the circulation, in reference to the general scale of transactions, is to be considered, as I believe it is, a desirable state, in so far would the direct operation of variations in the exchanges, in causing corresponding variations in the amount of the circulating medium, be found to be inconvenient, and sometimes greatly so. When quoting a passage from Mr. Norman's publication, it occurred to me to remark, that I did not see the force of the objection to the union of the banking and issuing departments, merely because it was a mixture of things in their nature distinct; and as little can I concur in the same objection, expressed by Mr. Loyd in still stronger terms, in the following passage: "The two things, the management of a "paper currency, and the management of banking "deposits, cannot be blended together in one sys- "tem, and treated as subject to the same laws, "and to be governed on the same principle. The "attempt to do so is like that of the unskilful "chemist who attempts to unite together sub- "stances which have no affinity, and will not

"combine, and therefore obtains only a confused "and useless mixture, when he looked for a perfect chemical compound."

I had occasion, some pages back, to deny Mr. Hume's position of the complete *identity* of circulation and deposits; and I must equally call in question Mr. Loyd's view of their *incompatibility for the purpose in view.* The assertion of unsusceptibility of beneficial, or at least harmless, mixture, is rather in the nature of an assumption of the point in question. Taking Mr. Loyd's illustration, I should say, the substances, agreeing in some, differ in other properties; and it depends upon the object to be answered, whether, for that particular purpose, a compound of those qualities may not form a very useful mixture. But, perhaps, a better illustration may be derived from mechanics, by likening the movements of the circulation and deposits united in one system, to the contrary revolutions of two wheels working together in machinery so as to produce a desired effect. And such, I am inclined to think, is the more desirable effect of a union of deposits and circulation. always assuming a sufficient average reserve of bullion, than their separate operation.

Mr. Loyd dwells, at considerable length, and with much force, upon the counteraction which the Bank of England has experienced from the country bank circulation. He takes a view directly opposed to that of Mr. Hume, who has endeavoured (very unsuccessfully) to show, that the fluctuations in the circulation of the country banks were less than in that of the Bank of England. But I am not quite clear that Mr. Loyd establishes the case fully against them. After pointing out the fact, that the country issues continued to increase through the whole of the year 1838, and until June 1839, and that there was, in the quarter following, a sudden and large decrease, he observes, "Had the country issues

"commenced their contraction in April 1838, "when the bullion first began to diminish, or in "October, when contraction on the part of the "Bank of England first commenced, the serious "danger to which the monetary system of the "country has been exposed might very possibly "have been altogether avoided."

I cannot see the force of the grounds on which it could have been expected that the country banks should have commenced a contraction of their issues in April 1838, simply because there had been a small diminution of bullion, which small diminution, however, did not appear till the Gazette return in May 1838. It is well known that the country issuers, with the exception of Mr. Stuckey, and perhaps one or two others, have not, according to their evidence in 1832, professed to be guided by the exchanges, or by any strict attention to the variations in the amount of the Bank treasure. But if such had been their professions and their habits, there was not, most undoubtedly, the remotest signal, from the position of the Bank of England, which should have induced them to take measures for contracting their issues.

By the return of the Bank of England in May 1838 the stock of bullion was still about ten millions, and that was the time when it was stated in the newspapers, and with great approbation by some of them, that the Bank of England, being incumbered with a superfluously large amount of bullion, was sending a considerable sum to the United States of America. Later, too, in the year, that is, by the monthly return in January 1839, the average amount of bullion in the three months preceding was 9,336,000*l.* But this amount of bullion, although lower by nearly 800,000*l.* than the highest return, which had been 10,126,000*l.* in April 1838, was in point of fact higher than it

had been in January 1838, and higher than at any previous period since January 1834. Surely, therefore, there could be nothing in the returns of bullion so late as January 1839 to induce the country banks to resist the demands, which arose apparently from the greatly extended transactions connected with the increased activity of the corn trade, and the distribution of the large foreign supplies for an enlarged circulation. If, again, they looked at the Bank of England circulation, they would have seen that it had increased between January and September 1838 from 17,900,000*l.* to 19,665,000*l.*; and the increase of the country issues was, in that interval, not in a larger proportion.

Mr. Loyd, however, seems to think that the country banks ought to have reduced their circulation, in accordance with the contraction by the Bank in October 1838. But the circulation of the Bank as late as November 1838 was higher than it had been in the first three months of 1838, and higher even than it had been on the average of four years preceding. As far, therefore, as relates to a mere numerical view of the Bank of England issues, there was no particular warning held out by them to the country banks.

There is, moreover, this material consideration, which may go some way in exonerating the country banks from utter disregard, in their movements, of any regulation by the Bank of England. Mr. Loyd, in the passage just quoted, speaks of contraction having first commenced in October 1831. The word *contraction* is liable to some ambiguity, inasmuch as it is sometimes used to signify simply the fact of diminution, while it is more frequently used in a sense including the operative cause of the diminution. Now, from the manner in which it is here used, it might be inferred that the Bank *designedly* diminished its

issues in October, as a precautionary measure against the tendency to efflux of its bullion. Such, however, was not only not the case, but the very reverse of the case; inasmuch as the Bank at that time not only did not design, or make any effort, to diminish its issues, but its public acts showed that the diminution was against its intention, because by the notice of increased facilities for advances in November 1838 the directors plainly evinced a desire to extend their securities, that being the only medium through which they could influence their circulation. The country bankers, therefore, if they regulated themselves by the conduct of the Bank of England, seeing that the directors, by their notices in November 1838 and in February 1839, were still willing to maintain their issues at the highest amount which the demand for them at 3½ and 4 per cent. per annum would absorb, might very naturally consider themselves justified in equally availing themselves of the continued demand for their notes. And as far as relates to any intimation from the Bank of impending danger, to serve as a warning to the country issuers, the first public notice of withdrawing the usual facilities for advances and discount was in May 1839. The contraction, therefore, of the country circulation, which took place in the interval between June and September 1839, from 12,275,818*l.* to 11,084,970*l.*, was as early as could be expected, if it was to be regulated by a reference on the part of the issuers to the conduct of the Bank of England.

When reviewing, as I had before* occasion to do, the state of the circulation in 1836, I had the advantage of agreeing with Mr. Loyd in contending that the Bank of England had not suc-

* Vol. II. p. 310.

ceeded in showing that the whole or the greater part of the derangement at that time was to be attributed to the counteraction which it experienced from the country banks, as far at least as regarded their circulation. And according to the view here taken of their conduct in 1838 and 1839, I am disposed to say of them, in the terms which he used when referring to their conduct in his tract, entitled "*Reflections, &c.*, 1837," "If "they have done wrong, it appears to have been "from the want of that controlling action on the "part of the Bank of England which she might "have exerted, and has not."

At the same time, although it is quite clear that the Bank did not make any efforts, as far at least as the public could judge of them, to reduce the circulation, and that therefore there is no ground for charging the country banks with counteracting such endeavours on the part of the Bank, I am strongly of opinion that it would have required more than ordinary efforts (and that at a time when there was no clear indication of a necessity for extraordinary measures) on the part of the Bank to have kept down the country circulation in 1838, seeing how powerful were the causes in operation at that time, leading almost inevitably to an increased issue. And it is highly probable, according to my view of them, that if the country circulation had been wholly conducted through the medium of Bank of England notes, there would, throughout 1838, have been an equal *relative* increase of them as there was of the country notes. With regard to the decrease of the country circulation after June 1839, there can be little doubt, that, from the cessation of the circumstances which had mainly, if not exclusively, caused the previous increase, there would have been a diminution, independently of any coercive

measures for contraction on the part of the Bank, although those measures may have hastened and somewhat increased the reduction.

Mr. Loyd appears to me greatly to over-rate the power of the country banks voluntarily to extend their issues, or, rather, to maintain an extended circulation, except under circumstances justifying that extension. On this point I rather lean to the opinion which is quoted at p. 193 from Mr. Gurney's evidence.

The opinion which has prevailed generally, on the extent of the country circulation as existing during the restriction, was, and is, I am convinced, exaggerated in a very high degree. Nothing can be more fallacious than the grounds for computation of it given in the Lords Report on Cash Payments in 1819, p. 12. And I must dissent, for that and for other reasons, from Mr. Ward's opinion founded upon it, as quoted by Mr. Loyd, to prove that the action of the Bank of England during the restriction was prevented by the country issues from producing its proper effect upon the exchanges.

While, however, differing from Mr. Loyd as to the degree of counteraction experienced by the Bank of England in the regulation of its issues from the country banks, I fully concur with him in the opinion, that, as regards them, it might be desirable that the business of issue of paper should be separated from that of ordinary banking; but my concurrence in the desirableness of such separation does not proceed on the ground of incompatibility of the functions, as regards the mere amount of the issues; I do not see how or why the blending of the deposits with the issues should necessarily interfere with a due regulation of the amount of the latter, provided only the convertibility of the paper money into gold, or Bank of England notes, were secured. It is the danger of

insolvency of the issuers, more than that of excessive amount of paper money, that is to be apprehended from that part of the circulation.

The phenomena of the great occasional derangement of the country circulation have been referable in a much greater degree to overbanking than to mere over-issues of paper money. By overbanking (which is a phrase of modern introduction) I mean advances, either on insufficient or inconvertible securities, or in too large a proportion to the liabilities. The disproportion of the securities to the liabilities might, perhaps, be set wholly against the deposits; and but for the excess or inconvertibility of the securities, on occasion of unexpected demands by depositors, there might, in the instance of many of the country bankers who failed, have been no unusual demands for payment of their notes.

It is the liability of the issuing country banks to fail, from causes independent of an undue extent of issue, that constitutes one of the greatest objections to the mode in which the country circulation is administered. If a country banker has been imprudent, whether by speculations, by undue expense, or by bad debts, or by keeping too small an available reserve, and consequently fails, the circulation of the district is disturbed by a sudden diminution of the quantity of money below that which the general transactions and the markets at fair bullion prices would require. A considerable inconvenience is thus experienced by an entire neighbourhood, distinct from the losses which the depositors and the holders of the notes sustain. And if, from a considerable fall of prices,

Among the parties who suffer by the failure of country bankers the cases of the greatest hardship are those of the holders of the notes. The subscribers, if the case is that of a joint stock bank, are in point of fact the partners. The depositors, before they intrusted their money with the banker,

or some other extensive cause, such, for instance, as the prevalence of a too great previous confidence, the securities held by many of the country banks become greatly depreciated or inconvertible, the derangement of the circulation, in which it is very possible no excess in amount had existed, might be very extensive, and seriously injurious.

It is in this point of view chiefly, that is, of undoubted solvency, that the state of banking in Scotland has a decided advantage, for as to occasional undue extension and sudden contraction of credit, as contradistinguished from issues of circulating paper, the Scotch banks are fully as obnoxious to the charge as the banks in the other parts of the united kingdom.

Before taking leave of the subject of banks, I must be allowed to express a hope that the remarks which I have made on what appears to me to be a very general misconception of their legitimate purposes, should not be so misconstrued as to lead to the supposition of my undervaluing or disregarding the important advantages resulting to the agriculture, manufactures, and commerce

might or ought to satisfy themselves of his solidity; but the holders of the notes are commonly persons who have taken them upon the general confidence, and are, in a larger proportion of instances, so situated as not to have had the clear option of taking or refusing the notes. The small farmers and tradesmen of a neighbourhood would be seriously injured in their business if they demurred at taking the country notes in payment, when there was no special or ostensible ground for discredit attaching to the banker; accordingly, for practical purposes, they are taken as currently as if they were a legal tender. The case is very different with bills of exchange, inasmuch as the credit of the several signatures upon them enters distinctly as a consideration with the persons receiving them in payment. It is of the very essence of the object of convenience proposed by a circulation of paper money, that it should carry an indubitable certificate of its value on the face of it, (barring only the risk of forgery, to which all paper circulation is subject,) so as that no doubt or hesitation should arise on its passing from hand to hand in current payments.

of the country, from well-regulated and well-conducted banking institutions. The whole purport of my observations has been, to convey the strong impression which I feel, that whenever any bank or banks, professing to have in view to promote the agriculture, or the manufactures, or the trade of their neighbourhood or of the country, make advances to a larger amount, or on more slender or less convertible securities, than may be compatible with the claims of their depositors and the holders of their notes to constant payment on demand, they are chargeable with a departure from the plain path of their duty. There is liability enough to failure without superadding so gratuitous a risk.

I do not mean to say that banks may not be established for purposes of local or public utility, distinct from any immediate consideration of profit to the subscribers, or of convenience and perfect security to the depositors; but then it should be with the distinct understanding and consent of the depositors as well as of the subscribers, that such is intended to be the destination of the funds. Banks, however, professing to have such objects in view, with the knowledge and consent of their depositors, are institutions totally different from those to which questions concerning the state of the circulation apply, and to which alone my remarks have been directed.

In the concluding chapter of Mr. Loyd's work, when treating "On the consequences which "depend on a good or bad management of the "circulation," the author observes, "Doubts "have been raised as to the effect *which any degree* "*of mismanagement of a paper currency*, so long "as it is convertible, and the issuers of it continue "solvent, can produce, either *in creating, inten-* "*sifying, or prolonging the evils of commercial* "*oscillations*. Whilst some parties attribute the

"fluctuations of trade, and the not unfrequent re-
"currence of mercantile and commercial difficulty,
"almost exclusively to mismanagement of the
"currency, other persons have taken a very diffe-
"rent view of the subject. Fluctuations in trade,
"they contend, are necessarily connected with the
"very existence of commerce; variations in the
"relation of supply and demand arise out of
"natural circumstances, and will produce alterna-
"tions of prosperity and depression, *whatever be*
"*the circulating medium, and in whatever manner*
"*regulated.* The case would not be different were
"the circulation wholly metallic. Speculation,
"according to their views, originates in causes
"unconnected with the state of the currency; and
"although an undue amount of issue may aggra-
"vate the evil where it exists, yet prices are but
"indirectly and distantly connected with varia-
"tions in the amount of the currency, whilst other
"causes affect them more immediately and more
"powerfully."

To this passage is appended a note which contains extracts from the former volumes of this work, and should seem to lead to the inference that Mr. Loyd refers to me as entertaining the opinions conveyed in the parts of the above quotation which I have marked with italics. If so, I must protest against the supposition that the parts of the foregoing passage so marked afford a correct representation of my views; they differ widely from any thing that I have stated, or intended to state. The opinions which I have delivered on the subject of prices, and fluctuations in the state of trade and of credit, in connection with the currency, have been deduced from views purely historical, and have proceeded entirely on a minute investigation of the circumstances attending the principal variations which actually occurred.

In no instance have I advanced any general

proposition, so extreme and unqualified as "that "no mismanagement of the currency could create, "intensify, or prolong the evils of commercial "oscillations." I have merely endeavoured to show that, *managed as the currency has been*, although an undue amount of issue may have aggravated the evil when it existed, yet prices, and the state of trade, *have been*, "so long as the paper has "been convertible, and the issuers of it solvent, "indirectly only and distantly connected with "variations in the amount of the currency, whilst "other causes have affected them more imme- "diately and powerfully." It is distinctly stated in the account which I have before given* of the great disturbance of the state of markets for commodities in 1825, that, although originating in other causes which would have operated to a great extent under a purely metallic variation, the management of the paper circulation at that time, more especially as being attended with the insolvency of so many of the issuers, and thus deranging commercial credit, was calculated to aggravate the operation of those causes; while, on the other hand, reasons have been adduced† for the inference, that the tendency to commercial oscillations between 1827 and 1832 was mitigated by the management which then prevailed, compared with what it would have been under a circulation varying strictly with the variations in the amount of bullion.

I have nowhere maintained, nor intended to convey, the opinion, that it is not in the power of the Bank of England, in any supposable case, to exercise a direct influence upon the prices of commodities. The extent of my meaning is, that it could only do so by a violent operation wholly inconsistent with its professed rules and its ordi-

* Vol. II. p. 178.

† Vol. II. p. 220.

nary practice. That by extraordinary measures, with that view, it might produce some effect, I am quite ready to admit. If, for instance, the Bank were to determine upon selling so large a portion of its securities, and so limiting its discounts as should, notwithstanding the counteraction of deposits, suddenly reduce the circulation by such an amount as should withdraw from the bankers a considerable portion of the bank notes destined for current payments, the fall in the value of securities would be very great; and if, as is probable, such extreme pressure were attended with commercial discredit, the markets for commodities would be affected, but principally, if not exclusively, those which were connected with the branches of trade to which the discredit attached, and more especially if the articles happened to be at all in excess compared with the ordinary rate of consumption. But even in this extreme case the effect on prices would not be general; there would be some markets for produce not at all affected; such, for instance, as might be composed of articles the holders of which were mostly, if not wholly, independent of credit; while those markets into which a large portion of credit extend might be greatly depressed. At the same time, if these were not over supplied, the effect would be principally felt in a great difference between the money and the credit price.

To the extent, then, of the proposition, that the Bank of England has the power, by a very violent and unusual contraction of the circulation, to produce a partial depression of the prices of commodities, it may be admitted that there is a connection between the Bank of England issues and prices. But it is only in a highly improbable, because an extreme, case, that the Bank can be considered as having the power of producing such a depressing effect, which would of course be only

temporary, because under such violence of pressure the exchanges would be so influenced as to cause a rapid influx of bullion, and through that medium there would be a re-issue of money, either in Bank notes or coin.

With regard to the power of the Bank to elevate the markets for produce, the only conceivable mode of producing such an effect would suppose a resort to means still more improbable. It has already been seen that any *forced* operation of the Bank in an increased issue of Bank notes *on securities* would not necessarily or even probably enter into the markets for commodities, nor consequently affect the prices of produce. But if the directors of the Bank of England, taking up the opinion that any commodity or number of commodities were too low in price, such being also the opinion of the holders, were, under the pretence of benefiting commerce, to make direct advances on such commodities, they might (as the United States Bank and other American banks did) cause a temporary undue elevation of prices; the circulation would then prove redundant, the exchanges would fall, and bullion would go out till the level should be restored. But these, although possible and imaginable cases, are not within reasonable probability, nor, therefore, practically applicable to the solution of questions relating to prices, as they have been, or are likely to be, under a regulation of the paper such as has prevailed under the management of the Bank of England.

I have the satisfaction, however, to find, that, whatever may have been Mr. Loyd's misapprehension of my opinions (if the passage which I have quoted had any reference to them), the views which I actually entertain, and have endeavoured to convey, on the connection between the currency and the state of prices and of trade, are in perfect accordance with the opinions which he has ex-

pressed on the subject in a still more recent publication.

I allude to the following passage, contained in a letter addressed by Mr. Loyd to J. B. Smith, Esq., President of the Manchester Chamber of Commerce, on occasion of the report of the directors of that body "On the effects of the administration of the Bank of England upon the "commercial and manufacturing interests of the "country;" in which report it is stated, that the alternations of excitement and depression in trade, since 1835, and especially the events of this character which have occurred in 1838 and 1839, are to be attributed entirely to mismanagement of the circulation.

On this charge Mr. Loyd observes, "Fluctuations in the amount of the currency are seldom, "if ever, the original and exciting cause of fluctuations in prices, and in the state of trade. "The buoyant and sanguine character of the "human mind; miscalculations as to the relative "extent of supply and demand; fluctuations of "the seasons; changes of taste and fashion; legislative enactments and political events; excitement or depression in the condition of other "countries connected with us by active trading "intercourse; an endless variety of casualties, "acting upon those sympathies by which masses "of men are often urged into a state of excitement or depression; these, all or some of them, "are generally the original exciting causes of "those variations in the state of trade to which "the report refers. The management of the currency is a subordinate agent; it seldom originates, but it may, and often does, exert a considerable influence in restraining or augmenting "the violence of commercial oscillations."

It is impossible to convey, in language more clear and appropriate, the sum and substance of

the conclusions which it has been the object of the statements and reasonings in the present and preceding volumes of this work to establish, on the question of the influence of the currency in its convertible state.

The letter of Mr. Loyd, from which I have made the foregoing extract, has called forth a reply from Mr. J. B. Smith, the President of the Manchester Chamber of Commerce. Mr. Smith, proceeding upon the doctrine that the variations in the liabilities of the Bank are identical with variations in the amount of the circulation, and that these, being attended with corresponding variations in the rate of interest, constitute expansions and contractions of the currency, after quoting the passage of Mr. Loyd's letter of which I have given an extract, asks, "What is meant by the "management of the currency? Is it the putting "out large quantities of paper money at one time, "and suddenly taking it in at another, according to "the practice of the Bank of England? And can "it be meant that such expansions and contractions "of the currency 'are seldom, if ever, the exciting "'causes of fluctuation in prices and in the state "'of trade?' If so, why complain of the excessive "issues of the country banks? It cannot be more "dangerous for them to put out large issues of "paper money than for the Bank of England to "do so. Your letter says, 'a *reduction* of circu-"'lation must at all times tend to check the "'facility of credit, and *to lower* prices.' Must "not then an *expansion* of the circulation at all "times tend to increase the facility of credit, and "to *raise prices*? How then shall we reconcile "this with the statement that 'fluctuations in the "'amount of the currency are seldom, if ever, "'the original and exciting cause of fluctuations "'in prices?'"

I am induced, at the risk of wearying my readers,

to notice this passage of Mr. Smith's letter, as it affords me the opportunity of supplying an explanation of one or two points which it escaped me to remark upon in the earlier part of my argument.

Mr. Loyd has, in my opinion, not entirely guarded himself against the appearance, at least, of inconsistency, in laying the stress he has done upon the country bank issues as affecting the value of the currency. But I would more especially remark upon that part of his letter quoted by Mr. Smith, namely, where Mr. Loyd says, "a "*reduction* of circulation must at all times tend to "check the facility of credit, and to lower prices." Mr. Smith's question here applies, "Must not "then an *expansion* of the circulation at all times "tend to increase the facility of credit, and to "raise prices?" But the question which I should ask of both is, what they mean by facility of credit? If by facility of credit be meant an absence of discredit or distrust, and the power of negociating good securities at the current rate of interest, it is not clear why a reduction of the circulation *must at all* times check such facility. Granting, however, that such must be the effect at all times, we have seen recently that a very decided check to facility of credit did not lower prices. Between, however, a mere check to facility of credit (by which is only meant a rise in the rate of discount), and a state of commercial discredit, the difference is very great; and if Mr. Loyd's remark had been, that a *forcible* reduction of the circulation, such as to cause *a derangement of commercial credit,* was calculated to lower prices, the correctness of the remark might be admitted. It is, however, to the converse of the proposition that I would particularly draw attention. It is asked, whether an expansion of the circulation must not *at all* times tend to increase the facility of credit, and to raise prices. The answer would be, that there can be

no *increase* of facility of credit beyond the most *complete facility*, such as described by Mr. Gurney, in 1833, when any amount of money might be obtained, for commercial purposes, at two and a half to three per cent., on *good security*. And in this sense of facility of credit there is no reason why an expansion of the circulation should increase the facility, or raise prices, any more than it would in 1833.

But if by facility of credit be meant such abuses of banking as allow borrowers to obtain money on *insufficient security*, there can be no doubt that a facility of that kind, if there happen to be any inducement in the state of markets to speculation, will tend to raise prices. It is a facility of credit of this kind, favoured by limited responsibility of the American banks, that has operated on prices of the different objects to which the abuses of banking and credit in the United States have been directed. The propositions thus stated would then merely amount to this; namely, that a forcible reduction of the circulation, entailing derangement of commercial credit, tends to reduce prices; and that the abuses of banking, in making advances on insufficient security, when motives for speculation in commodities exist, tend to raise prices; and I am not aware that I have in any instance called in question the truth of propositions so qualified. The more immediate purpose, however, of my reference to Mr. Smith's letter is, to remark upon his explanation, introduced in a *note* to the passage which I have quoted from his letter, of the manner in which an increase of the Bank of England issues is supposed to operate necessarily in raising prices. The *note* in question is as follows:—

"Supposing the Bank of England to have a certain
"amount of paper in circulation against a certain quantity
"of commodities of all kinds in the market, at a given

"period; then supposing that the Bank increased its "issues by a million, in a loan to the Government, or in "any other way, the quantity of commodities remaining "the same; it is quite evident that the natural tendency of "such an operation would be, to raise the money value of "commodities. Either the price of the commodities must "rise, or the money must remain without employment.' "If the money remained for a time without employment, "the necessary effect would be, a reduction of the rate of "interest, and so a rise in the price of commodities would "be produced. This truth is so self-evident, and so con-"sistent with all experience, that it scarcely needs illustra-"tion, and it is in perfect harmony with the views expressed "by Mr. Loyd, in his pamphlet in 1837:—'If the cur-"'rency be in excess, prices of all articles are affected in a "'corresponding degree; hence the balance of trade is dis-"'turbed; the exchanges are consequently affected, and "'a tendency is produced to export gold.'" *

Here is the very case supposed, in the evidence which I have quoted at page 156 of Mr. Gurney, only that the sum assumed is one million, instead of five millions.

Mr. Smith says, "Either the prices of commo-"dities must rise, or the money must remain with-"out employment. If the money remained for a "time without employment, the necessary effect "would be, a reduction of the rate of interest, "and *so a rise in the price of commodities would be* "*produced.*" That an additional issue by the Bank of a million or of five millions, on securities, would, cæteris paribus, reduce the market rate of interest, may be granted; but it is *not self-evident*, or *consistent with experience*, that prices of commodities would *therefore necessarily* rise. The persons who obtained such an increased price for their securities as induced them to sell would, doubtless, upon receiving the money, seek some

* "Further Reflections, &c., by Samuel Jones Loyd."

other investment for it. There might not be, nor would it be likely that there should be, any thing in the state of supply and demand in the markets for commodities, to induce persons, not habitually in them, nor so disposed, to speculate in goods; while the probability is, and such has been the course of experience, that, as by the supposition the market rate of interest in this country would, by such an operation of the Bank, be depressed below its ordinary rate relatively to other countries, there would be every inducement to the individuals who thus had their capitals disengaged to seek investment in securities abroad, whether public or private; as there would not, by the operation of the Bank, be necessarily any additional inducement to export commodities, the capitals to be transmitted abroad for such investments would be remitted in bullion; the effect, therefore, of the issue of the million or five millions of bank notes by the Bank might merely be their return upon the Bank for bullion to be exported. This was, in point of fact, the process in 1834, when the Bank increased its securities by between three and four millions, and reduced its treasure by the same amount; while the markets for commodities, although the rate of interest was low, and the facility of credit complete, were in the most quiescent state possible, and the corn markets falling.

Mr. Smith's note gives considerable insight into the foundation of the currency theory. He supposes the Bank of England to have a certain amount of bank notes in circulation, against a certain quantity of commodities of all kinds, at a given period, and then, commodities remaining the same, the price is concluded to vary with the bank notes. This is the familiar notion which prevails to a surprising extent; surprising, because

a slight consideration will show how little necessary connexion there is between these two supposed necessarily related quantities.

The rationale of the matter, as appears to me, is this:—Prices are the result of a certain ratio between the quantity of money entering into the markets for commodities, and the quantity of commodities offering for sale on the other; but the money, or that which performs the office of money, that enters into the produce or wholesale markets, consists in a very small, I believe an infinitely small, proportion of bank notes. Nine tenths, or, more probably, ninety-nine hundredths, of the purchases and sales of the wholesale markets, are transacted through the medium of book debts, or simple credit, and cheques on bankers. It is the balances only of these transactions that require the intervention of bank notes; and it depends partly upon the proportion of buyers and sellers, who keep accounts with the same banker, whether any, beyond the smallest possible amount of bank notes, is employed for the final adjustment of the largest wholesale transactions in the markets for commodities. The clearing house in London is a familiar instance of the enormous amount of transactions, many millions, adjusted by a few hundred thousand pounds of bank notes.

A process similar in principle, although perhaps with not quite so small a proportion of bank notes, whether private or Bank of England, takes place, I believe, in most of the principal provincial towns. In the wholesale markets for provisions, among farmers, and millers, and cattle dealers, there may be a larger use of bank notes; and it is this circumstance, I presume, which renders the variations of the country circulation so dependent upon the prices of corn and cattle. But with that exception it will be found, I imagine, that the principal uses of bank notes, beyond the amount which the

bankers reserve for possible demands over the counter, are for the payment of rents, dividends, salaries, and wages, and for payments by the smaller class of tradesmen, who do not keep cash with a banker. The smaller notes only, in all probability, circulate along with coin, as the medium of purchases for immediate consumption.

And here we come to the ultimate regulating principle of money prices.

It is the quantity of money constituting the revenues of the different orders of the state, under the head of rents, profits, salaries, and wages, destined for current expenditure, according to the wants and habits of the several classes, that alone forms the limiting principle of the *aggregate of money prices*,—the only prices that can properly come under the designation of *general prices*. As the cost of production is the limiting principle of supply, so the aggregate of money incomes devoted to expenditure for consumption is the limiting principle of demand for commodities.

A view to those simple and constantly operative principles, instead of the doctrine of the effects of expansions and contractions of the quantity of paper money issued by the bank, will serve to throw a steady light upon the circumstances determining the general state of trade and of prices. By the aid of those principles there can be no difficulty in accounting for some of the phenomena of the present period.

The resistance, so unaccountable, according to the currency theory, of the markets for produce, to the reduction of the amount of bank notes, and to the rise in the rate of interest, is easily explained. The trade had been, when the pressure on the money market commenced, in a perfectly sound state; and by a sound state is meant, that the importers and holders were trading strictly with a full proportion of capital, and requiring

only so much of credit * at the utmost as would be available under any circumstances of the money market short of total derangement of it. The prices at which the goods were imported or produced, and held, were such as did not admit of their being replaced at a lower cost of production; and the supplies were mostly rather below than above the estimated rate of consumption.

On the other hand, the dull demand, and, in many instances, the reduced prices, and generally the bad trade, so much complained of, for manufactured goods, and the distressed state of the population, may be accounted for by two or three prominent causes, one or more of which would in each case account for the depression. In some articles there had been an excess of manufacturing power applied, in consequence (partly, perhaps, by banking accommodation,) of the erection of new mills, in anticipation of continued increasing demand. And while there has been some excess, perhaps, from this cause, in the stock of

* As book credits and bills of exchange are the medium through which a considerable portion of the purchase of commodities are effected, constituting prices computed in money, as completely as those which are made by the intervention of bank notes or coin, the greater or less degree of credit that enters at different periods into the markets for commodities will naturally operate as a temporary or disturbing cause in those markets. But credit in this sense is not confined to banking advances or discounts, and it has only been with reference to banking, and to paper money issuing from banks, that my remarks on the passage quoted from Mr. Loyd and Mr. Smith, as to the effects on prices of the greater or less facility of credit, were made. If the facility of credit as from producers, whether manufacturers or farmers, or from importers and merchants, to dealers, and from them to shopkeepers, be, as in periods of confidence it is apt to be, carried to an undue extent, prices may be inflated, and a cessation of the excess of confidence, terminating in distrust, will cause a collapse. An extension of the issues of bank notes, and a subsequent contraction, have been commonly the consequences, and not the causes, of occasional undue expansion alternating with collapse of credit.

manufactured goods, there are obvious causes of temporarily diminished consumption. The most striking, the most extensive, and the most distressing, is that which has been noticed in the first chapter of this work, namely, the reduced earnings of the manufacturing population, and the large proportion of those reduced money earnings which must go to the purchase of food at comparatively high prices. This cause, in its ramifications, will apply also to the power of expenditure of some of the classes immediately above the poorest. The disturbed state of our trade with America, and with China, will of course account, among other causes, for the reduced demand for some of our manufactures, and the consequent diminished employment of the workmen. There is also a cause, of minor importance, however, which affects the power of expenditure of persons in the middling walks of life. I mean the very large amount of capital which is absorbed, and wholly unproductive of immediate income (whether permanently so is another question), in railway and other joint stock concerns, but chiefly the former, in which the sums invested, and for the present yielding no net returns, are computed to amount to many millions. The absence of all income from such an outlay might not, in ordinary times, have a sensible influence on the general scale of expenditure in consumable commodities, and it might be, in a prosperous period, more than compensated by the savings of those same and other classes; but in the present instance it may be mentioned as being possibly among the minor aggravating causes of the present depression.

The subject, however, of the circumstances at present in operation upon the rate of consumption, is too large to admit of being fully entered upon in a discussion to which it is only incidental.

I will here, therefore, conclude with the expression of my strong conviction, that the more the question of the connection between the prices of commodities and the state of the circulation, in its convertible state, is gone into, the more surely will be the result in the negative of any direct influence of the issues of bank notes, under the regulation of them which now prevails, as an operative cause of the fluctuation of prices.

At the moment of my being about to close the present work, my friend Mr. Pennington has communicated to me a paper which he had drawn up, in illustration of the mode in which a separation, such as has been proposed, of the banking from the issuing department, would have worked, if it had been in operation at certain periods between January 1834 and July 1839. As it relates to one of the most important points in the discussions now on foot relative to the currency, and as it is one on which Mr. Pennington's peculiarly scientific manner of treating it is calculated to throw considerable light, I am persuaded that I am doing an acceptable service in bringing it under the notice of my readers, and I therefore avail myself of his permission here to insert it.

PAPER COMMUNICATED BY MR. PENNINGTON.

"The rule adopted for the guidance of the "Bank of England in the management and "regulation of its liabilities, as explained by "Mr. Horsley Palmer and Mr. Norman, in their "evidence before the Parliamentary Committee "of 1832, is now supposed to be insufficient for "the attainment of the object proposed by it. "It is considered that a strict and inflexible "application of it to the joint liabilities of notes

" and deposits would render it frequently in-
" effectual, and sometimes injurious; that although
" the deposits at the Bank, and its outstanding
" notes, are alike payable in specie on demand,
" yet only the latter affect the rate of interest and
" the foreign exchange, and that a demand for
" gold for exportation or for domestic purposes,
" or an influx of gold, in consequence of a favour-
" able foreign exchange, may act only on the
" deposits, without lessening or increasing the
" amount of notes in circulation.

" In order to confine the rule to the promis-
" sory notes of the Bank, or, as they are usually
" termed, its *circulation*, it has been proposed that
" the business of the Bank shall be separated into
" two distinct departments, one to be called the
" circulation department, the other the deposit
" department; that the circulating department
" shall hold a fixed and unvarying amount of
" securities, and that its functions shall be con-
" fined solely to the exchange of gold for notes,
" and of notes for gold; and that the deposit
" department shall manage the funds intrusted to
" it on the ordinary principles which are ob-
" served by the London bankers, and indepen-
" dently of the promissory note department.

" It may be worth while to inquire, what
" would be the probable operation of such a plan.

" In carrying it into execution, I apprehend,
" it would be proper, in the first instance, to
" assign to the deposit department such a pro-
" portion of the securities, and of the bullion,
" in possession of the Bank, as would, together,
" be equal to the amount of the deposits. Thus,
" if the Bank held eighteen millions of securities,
" and nine millions of bullion, against eighteen
" millions of outstanding notes, and nine millions
" of deposits, it would probably be deemed expe-

" dient to assign to the deposit department six " millions of securities, and three millions of bul- " lion, and to retain in the circulating department " six millions of bullion, and twelve millions of " securities.

" If such a separation were made, it is obvious, " that as the exchange of gold for notes, or of " notes for gold, between the two branches, would " not affect the amount of bank paper in the " hands of the public, and as such interchange " might take place frequently, and to a great " extent, the increase or diminution of out- " standing notes would form no certain criterion " of the amount of paper circulating out of " doors, unless it were, at the same time, known " what amount of notes was held by the depart- " ment of deposit.

" Disregarding, for the present, any objection " which it may be supposed would arise from " this consideration, let us at once proceed to " inquire what effect would be produced by a " demand upon the Bank for bullion.

" The action and condition of the deposit de- " partment will be more distinctly perceived, if " we suppose that, under circumstances above " stated, the whole of the three millions of bullion " are exchanged, on its first establishment, for " three millions of notes. The position of the two " departments would then be as follows:—

" *Circulating Department.*		*Deposit Department.*	
" Outstanding notes -	£ 21,000,000	Deposits - -	£9,000,000
" Securities - -	£ 12,000,000	Securities - -	£ 6,000,000
" Bullion - -	9,000,000	Bank notes -	3,000,000

" This being the position of the two depart- " ments, let us suppose that an adverse foreign " exchange has created a demand upon the Bank " for bullion for exportation. Now, such a

" demand for bullion may be satisfied, either by a " reduction of the notes in the hands of the " public, or by a reduction of the deposits at the " Bank. If the former, then the separation of " the business of the Bank into two departments " will have answered the purpose expected from " it; if the latter, then, in so far as relates to the " increase or diminution of Bank notes in the " hands of the public, by the action of the foreign " exchange, no satisfactory result will have been " produced. In the latter case, no advantage in " the regulation of the circulation will have " resulted from the separation.

" It may, perhaps, be said, that if the business " of banking were separated from that of circula- " tion, and conducted in the manner and upon the " principles which are adopted by the private " bankers of the metropolis, a diminution of de- " posits would be immediately followed by the " sale or realization of a corresponding amount " of securities, and thus the amount of Bank notes, " in the external circulation, would be reduced to " an extent commensurate with the delivery of " bullion.

" But such a sale or realization of securities, in " similar circumstances, may be effected under the " present system of management. Whether the " existing system be continued, or the business of " the Bank be separated into two departments, the " sale or realization of securities must depend on " the views and the discretion of the directors of " the Bank. The only difference between the two " cases is this; that the counteracting effect occa- " sioned by paying out bank notes to the depositors " would be limited to three millions: upon the " present system it may be carried to a much " greater extent.

" It may be observed, moreover, that if the

"demand for bullion for exportation should ex-
"ceed three millions, and if that demand should
"fall on the deposit department, that department
"would be reduced to the necessity, either of
"forcibly realizing a portion of its securities, or of
"stopping payment at a time when the circulating
"department was abundantly provided with specie.

"It may be desirable to apply the foregoing
"principles and observations to the actual position
"of the Bank, at certain periods, within the last
"four years.

"In January 1834 the liabilities and assets were
"as follow:

"Circulation -	£18,236,000	Securities -	£23,596,000
"Deposits -	13,101,000	Bullion -	9,948,000
"Rest - -	2,207,000		
	£33,544,000		£33,544,000

"If, at that time, it had been determined to
"divide the business of the Bank into two depart-
"ments, it would probably have been deemed
"expedient to assign 12,000,000*l.* of the securities
"to the circulating department, as a fixed amount
"which was at no future time to be exceeded.
"The remaining securities would, of course, go to
"the banking department. The outstanding notes,
"amounting to 18,236,000*l.*, would then have
"for their basis 12,000,000*l.* of securities, and
"6,236,000*l.* of bullion. But, as the deposit de-
"partment would probably prefer notes to gold, on
"account of the greater convenience of the former,
"the position of the two departments would have
"been as follows:

" a formal separation and apportionment, precisely
" the same action upon the currency would result
" from the strict observance of the following
" rule; namely, that the Bank shall not, upon any
" occasion, issue bank notes beyond a certain
" amount (that amount we have supposed to be
" 12,000,000*l.*), except upon the deposit of bullion.
" If this rule had been adopted in January 1839,
" and afterwards rigidly adhered to, a great reduc-
" tion of the securities held by the Bank would
" have been necessary, in order to avoid a sus-
" pension of the payment of its deposits. It is
" probable, indeed, that such a reduction of the
" securities would have arrested the drain of trea-
" sure at an early period of the year. If, however,
" the drain had continued, notwithstanding the
" reduction, it would have been necessary, in July
" last, to have carried the reduction to the extent
" of three or four millions below the amount which
" the Bank actually held at that period.

" Whether a formal separation of the Bank into
" two departments take place, or the rule last
" mentioned be adopted, it may be expected that
" the public will be exposed to very great alterna-
" tions of comparative ease and difficulty in the
" operations of the money market.

" It may here be proper to observe, that the
" difference between the rule above mentioned
" and that explained by Mr. Horsley Palmer and
" Mr. Norman in their evidence, is this;—that,
" while the former rule would preclude the Bank
" from issuing notes in the payment of deposits
" to a greater extent than is equal, in amount, to
" the difference between the amount of notes at
" any time outstanding and 12,000,000*l.* plus the
" amount of bullion in possession of the Bank, the
" latter would allow the Bank to substitute notes
" for deposits to an unlimited extent. The former
" rule would be the same in its operation as a

"division of the Bank into two departments. The "sole effect of the latter would be, the increase or "diminution of the aggregate amount of the notes "and deposits of the Bank with the increase or "diminution of its bullion.

"There is one point connected with the pro-"posed division of the Bank into two departments "to which I have not adverted, but which it may "be material to notice. It has been suggested, that, "in order to increase the disposable funds of the "banking department, it would be desirable that "a certain portion of the capital of the Bank, now "lent to the state, should be made available for "banking purposes. By this I apprehend it is "meant, that a portion of the three per cent. stock "in which the original capital of the Bank is "invested shall be sold, and the proceeds of the "sale invested in other securities, and in com-"mercial loans and discounts, at the pleasure and "discretion of the Bank.

"Of this suggestion it may be observed, that it "is a proposal to withdraw a certain amount of "funds from the use and employment of one "class of persons, in order that it may be trans-"ferred by the Bank to the use and employment "of another class of persons. By this process no "new funds would be created in the money "market. The change would be merely the "transfer of funds already existing from one kind "of investment to another. The operation would "be the same as that of an individual stockholder "who sells his stock in order to employ the money "arising from the sale in commercial discounts. "The operation of the individual stockholder "would, in its consequences, be comparatively "of little importance; but if five millions of the "original capital of the Bank were sold, as has "been proposed, and the proceeds of the sale "mixed up with and employed in the same

" manner as the deposits at the Bank, although " no greater reserve of bank notes in the banking " department, in consequence of this accession of " funds, would be necessary, yet the varying em- " ployment of funds of such magnitude, during " alternate periods of commercial excitement and " depression, might produce a prodigious effect " upon the general circulation. At one time the " additional fund might be employed in com- " mercial loans and discounts; at another time a " great part of it might be withdrawn from the " public, and held by the Bank, in bank notes and " specie; thus creating an alternate abundance " and scarcity of money in the hands of the public, " at the pleasure of the Bank."

APPENDIX.

APPENDIX A.

SOME weeks having elapsed since the account of the state of the Corn Trade in 1838 and 1839, which is given in chapter i. of this volume, was written, I am induced to avail myself of the opportunity of inserting further and more recent information on the subject, contained in the following extract from a circular dated 29th January last, from Messrs. Joseph & Charles Sturge of Birmingham, whose permission I have to make this use of it.

The estimate by Messrs. Sturge of the acreable produce of wheat of the harvest of 1839, as being more deficient than that of 1838, is more unfavourable than that which I had been led to form; but as their means of information are more extensive, and come down to a later period, the presumption is that their estimate may be nearer the truth than mine. While, therefore, there now exists a stronger presumption of the scantiness of the last crop of wheat, there are, from the continued extraordinary prevalence of extremely wet weather into this very advanced period of the winter (middle of February) increasing grounds of apprehension for the produce of the next harvest. Under these circumstances the present high duty, arising from the inferiority of the quality and not from the sufficiency of the quantity, of the existing stock in discouraging importation, furnishes a fresh commentary on the mischievous working of the present system.

"*Birmingham, January* 29. 1840.

"IN presenting our annual circular to our friends, the review of the Corn Trade for the past year, presents some

features of unusual interest. A second deficient harvest has rendered indispensable continued large foreign supplies of wheat; and, notwithstanding duty has been paid for home consumption on 4,532,651 quarters of wheat and flour in fifteen months, between the 1st of September, 1838, and the 30th of November, 1839, it is supposed that the whole stock of free foreign in the United Kingdom on the 1st inst. did not exceed 550,000 quarters, now considerably less, and of which about half was in London. Under the present system of Corn Laws, it is impossible that any considerable portion of the value of this import (large as it is) could be exchanged for British manufactures; and the drain of specie for payment, and consequent pressure on the money market, necessarily lessens the demand for labour, at the very time full employment and fair remuneration are most required by the high price of bread: the working classes are therefore compelled to use cheaper though less nutritious food; while, under a system of free trade in corn, the exchange, as with other foreign produce, would generally be in British manufactures, and the artizan would be in a great measure compensated for the increased price of food by a greater demand for labour. The average price of wheat has fluctuated from 61*s.* 10*d.* to 81*s.* 4*d.*, and the duty from 1*s.* to 20*s.* 8*d.*, while the average duty paid on 4,532,651 quarters of wheat and flour during the same period, was under 3*s.* 7*d.* per quarter. There is every reason to suppose the quantity of land planted with wheat in the autumn and winter of 1838, was greater than usual, but we believe the harvest of 1839 will prove even more deficient per acre than 1838. The export of this grain from Ireland has gradually decreased since 1832, from 552,7 0 quarters, imported that year, to 90,600 quarters in 1839; and this season will probably amount to little more than the foreign they import, or which is transhipped from this country. The stocks of wheat in all the European shipping ports are light, and with the exception of the flour, which may be drawn from America, we consider it very doubtful if, under the most favourable circumstances for the encouragement of shipments, more than 1,200,000 to 1,500,000 quarters can be imported before another harvest; and not only the state of the money market, but the fact of the quantity of inferior English and Irish wheat keeping down the averages, and conse-

quently causing the duties to be relatively high, as well as the drooping state of our markets, renders importers very cautious in making distant shipments to this country. Opinions of the future founded on the most accurate data within reach, so often prove erroneous by subsequent unforeseen occurrences, that they should always be advanced with great caution, but we think there is at least considerable probability that prices of wheat will range high till the harvest of 1842; but this will of course much depend on the seasons. If our estimate of the last year's crop, of the stock of foreign wheat on hand, and of the import in the spring, be at all correct, we shall not have much wheat in the country when next harvest arrives; and the present circumstances are very unpromising for a large crop this year, inasmuch as a greater breadth of land than usual sown with wheat in the autumn of 1838 would of course leave less to be thus appropriated in 1839; whilst the long continuance of almost unprecedently wet weather has rendered it impossible as yet to sow a considerable portion of land which was intended for that purpose, and much of what has been planted appears far from healthy: the deficiency, from these causes, can hardly be made up in the spring, and spring-sown wheat is more precarious than what is planted at the usual time. The successive failures of this crop in Ireland will rather discourage its growth there, which, with the increased consumption in that country, renders it very doubtful if any considerable import can be calculated upon from thence. When, also, we take into account that our population is estimated to increase at the rate of half a million annually, it seems very probable that we must have at least two productive crops, before any material reduction in price is likely to take place.

"Barley, as was anticipated, has proved very inferior in quality, and a large portion of it is only fit for grinding purposes.

"Oats are grown but to a limited extent in this part of the country; they have, however, proved on thrashing full an average crop in quantity, but light in quality; and, judging from the large imports from Ireland, we think such must be the case there: yet, though the price and sale are at present much depressed, we expect they will not be so permanently, as the stock of old was completely exhausted; and we believe it will be found, as the season advances, that the demand will keep pace with the supply.

"So small a portion of the last crop of beans has yet appeared at market (some few having only been secured since the commencement of the present month) that we are yet unable to speak definitively as to the yield; scarcely any are in a fit state for consumption without kiln-drying.

"The crop of peas proved quite as deficient as we estimated it at the time of harvest.

"JOSEPH & CHARLES STURGE."

The following Tables of Quantities and Prices of Corn are extracted from Messrs. Sturge's Circular.

Account of the Foreign Corn, Meal, and Flour, imported into Great Britain and Ireland, in the Years 1827 to 1839.

Year.	Wheat.	Barley.	Oats.	Flour.
	Qrs.	Qrs.	Qrs.	Cwt.
1827	283,236	208,117	1,741,091	94,348
1828	715,242	168,673	166,423	151,038
1829	1,544,969	281,752	541,858	461,895
1830	1,414,262	131,715	499,947	560,249
1831	1,857,278	369,024	617,568	1,627,742
1832	405,884	101,147	31,862	224,068
1833	247,625	85,221	23,335	170,092
1834	131,566	87,187	175,266	149,554
1835	46,530	68,455	117,673	84,684
1836	162,778	81,631	129,625	279,602
1837	452,369	91,911	413,710	346,325
1838	1,240,138	2,439	50,981	439,910
1839	2,638,593	581,086	674,554	793,660

Corn, Meal, and Flour imported, entered for Home Consumption, and paid Duty since 1823 inclusive, the first Year it was levied on Corn.

Year.	Quarters imported.	Quarters for Home Consumption.	Duty paid. £.	s.	d.
1823	53,866	12,362	10,310	4	3
1824	612,594	677,195	176,383	15	6
1825	1,060,837	834,425	304,919	15	5
1826	2,252,271	2,098,944	442,755	14	9
1827	2,622,283	2,998,866	792,934	15	8
1828	1,294,378	1,237,494	196,834	0	2
1829	2,694,432	1,959,355	907,320	5	5
1830	2,691,884	2,649,348	790,877	0	0
1831	3,570,569	2,265,392	547,809	0	0
1832	668,422	475,680	309,676	0	0
1833	481,506	112,408	36,252	0	0
1834	560,056	236,902	99,416	0	0
1835	321,206	439,988	201,673	0	0
1836	643,502	408,217	152,791	4	0
1837	1,325,930	842,326	580,200	0	0
1838	1,534,730	1,960,475	183,000	0	0
1839	4,591,099	4,657,146	*1,084,870	0	0

* To 5th December.

The average Duty paid on the 9,297,493 quarters of Foreign Wheat imported and entered for home consumption, since the present Corn Law came into operation up to the 5th December, 1839, is under *5s. 5d.* per quarter.

A Comparative Statement of the Monthly Average Price of Corn, in the Years 1838 and 1839.

	Wheat.				Barley.				Oats.			
	1838.		1839.		1838.		1839.		1838.		1839.	
	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.
January -	53	5	79	0	28	9	40	10	20	0	26	9
February -	55	3	73	7	28	10	39	5	20	2	25	4
March -	56	4	72	1	29	0	38	3	20	10	24	2
April -	58	10	70	1	29	10	38	9	21	8	24	8
May -	61	4	70	9	30	4	39	4	22	4	25	6
June -	65	0	68	8	31	2	38	8	22	8	26	10
July -	68	4	68	10	31	10	38	1	22	9	27	1
August -	73	8	71	8	33	11	38	1	23	10	26	8
September -	64	9	70	6	32	8	39	7	23	0	27	4
October -	65	8	67	4	31	3	41	0	22	6	25	9
November -	72	6	66	7	33	6	41	3	23	7	26	0
December -	77	7	66	11	36	2	40	0	25	8	25	6

Corn and Flour entered for Home Consumption in 1833, 1834, 1835, 1836, 1837, 1838, and 1839.

Year.	Wheat.	Barley.	Oats.	Flour.
	Qrs.	Qrs.	Qrs.	Cwt.
1833	60,990	1,207	9,753	75,450
1834	45,872	11,031	56,853	65,726
1835	16,336	136,868	175,907	44,165
1836	19,554	110,021	97,183	36,813
1837	232,793	47,475	333,932	40,187
1838	1,739,303	8,078	11,057	390,173
1839	2,519,873	590,149	864,619	665,023

Prices of Grain in Foreign Parts, per Quarter, in 1838 and 1839. Mostly taken in December.

	Wheat. 1838.				Wheat. 1839.			
	s.	d.	s.	d.	s.	d.	s.	d.
Dantzic - -	56	0	60	0	44	0	50	0
Do. high mixed	66	6	70	0	51	0	55	0
Leghorn - -	40	5	64	4	42	0	54	6
Rostock - -	50	0	54	0	47	0	49	0
Trieste - -	48	1	58	5	39	4	44	0
Riga - -	45	2	47	4	44	0	47	0
Hamburg -	57	6	66	0	41	0	54	0
Petersburg -	44	0	47	0	39	0	46	0
Genoa - -	42	6	58	6	43	0	46	0
Archangel -	36	0	38	0	33	0	34	6
Naples - -	38	0	48	3	37	6	44	6
Königsberg -	55	3	64	1	45	0	54	0
Bordeaux -	56	5	62	9	50	0	58	0
Marseilles -	42	0	53	9	39	6	51	0
Nantes - -	56	0	59	0	47	0	53	0
Lubec - -	53	0	56	0				
Odessa - -	35	6	42	10	33	0	37	0
Stettin - -	53	0	55	0	48	0	50	0
Sydney - -	56	0	68	0	160	0	170	0
Baltimore -	55	6	63	6				
New York -	62	0	66	0	37	0	41	0
Philadelphia -	54	9	62	0				
Quebec - -	68	9	79	3				
Paris - -	54	0	57	0	57	9	69	0
Kiel - -	53	0	56	0	44	0	49	0
Taganrog -	25	8	38	6	25	0	33	0
Santander -	64	0	68	0	46	0	55	0

Average Price of Grain per Quarter in England and Wales, for Nineteen Years ending 1839.

Year.	Wheat.		Barley.		Oats.		Beans.		Peas.	
	s.	*d.*	*s.*	*d.*	*s.*	*d.*	*s.*	*d.*	*s.*	*d.*
1821	56	2	26	0	19	6	30	11	32	9
1822	44	7	21	11	18	2	24	6	26	5
1823	53	5	31	7	22	11	33	1	35	0
1824	64	0	36	5	24	10	40	10	40	8
1825	68	7	40	1	25	8	42	10	45	5
1826	58	9	34	5	26	9	44	3	47	8
1827	56	9	36	6	27	4	47	7	47	7
1828	60	5	32	10	22	6	38	4	40	6
1829	66	3	32	6	22	9	36	8	36	8
1830	64	3	32	7	24	5	36	1	39	2
1831	66	4	38	0	25	4	39	10	41	11
1832	58	8	33	1	20	5	36	5	37	0
1833	52	11	27	6	18	5	35	1	37	0
1834	46	2	29	0	20	11	36	7	33	0
1835	39	4	29	11	22	0	30	0	30	0
1836	48	9	33	2	23	1	38	4	37	3
1837	55	10	30	4	23	1	38	7	37	9
1838	64	4	31	5	22	5	37	4	36	8
1839	70	6	39	1	26	6	41	3	41	1

APPENDIX B.

Prices of such of the principal and most bulky Articles of Merchandise as would, when viewed collectively, show the general State of Prices of all Commodities. From the "Circular to Bankers."

(d. p. means *duty paid*, bd. means *in bond.*)			December. 1838.							December. 1839.						
			£	*s.*	*d.*		£	*s.*	*d.*	£	*s.*	*d.*		£	*s.*	*d.*
Ashes,	bd.	United States pearl	0	0	0	to	0	0	0	0	0	0	to	0	0	0
—	bd.	Russia	1	5	0	—	1	6	0	0	0	0	—	0	0	0
Coffee,	bd.	Jamaica (fine)	5	12	0	—	6	18	0	6	4	0	—	7	14	0
—		— (ordinary)	4	3	0	—	4	16	0	4	2	0	—	4	18	0
—		Berbice (fine)	5	11	0	—	6	2	0	5	18	0	—	7	0	0
—		Ceylon	4	17	0	—	5	3	0	5	1	0	—	5	8	0
Cork-Wood,	d. p	French	4	10	0	—	5	0	0	4	10	0	—	5	0	0
Cotton,		Upland	0	0	6	—	0	0	9	0	0	6¼	—	0	0	8
—	bd.	Surats	0	0	4¾	—	0	0	6	0	0	4¾	—	0	0	6¼
Flax,	d. p.	Riga, P.T.R.	46	0	0	—	48	0	0	45	0	0	—	50	0	0
Hemp,	d. p.	Riga Rhine	45	0	0	—	47	0	0	37	0	0	—	39	0	0
—		Petersburg (clean)	45	0	0	—	45	10	0	37	0	0	—	37	10	0
Hides,		Buenos Ayres (1st and 2d)	0	0	5	—	0	0	10	0	0	5	—	0	0	9
Indigo,	bd.	fine and good purply violet	0	7	6	—	0	7	10	0	9	2	—	0	9	6
—		middling ditto	0	7	0	—	0	7	5	0	8	8	—	0	9	1
Iron,		(English) in bars (in London)	10	0	0	—	0	0	0	9	15	0	—	10	0	0
—		pig ditto	6	0	0	—	0	0	0	5	10	0	—	0	0	0
—	bd.	Swedish	13	0	0	—	13	10	0	13	10	0	—	10	0	0
—		Archangel	12	0	0	—	12	5	0	0	0	0	—	0	0	0
Lead,		in pigs	19	5	0	—	20	0	0	17	10	0	—	17	15	0
—		foreign Spanish	18	5	0	—	18	10	0	17	5	0	—	0	0	0
Linseed,		Baltic (qr.)	2	2	0	—	2	8	0	1	18	0	—	2	6	0
Mahogany,		Honduras (foot)	0	0	6¼	—	0	1	3	0	0	8	—	0	1	4
—		St. Domingo	0	1	0	—	0	2	6	0	1	0	—	0	2	2
Oils,		Whale	32	10	0	—	0	0	0	0	0	0	—	0	0	0
—		Southern Fishery (pale)	26	0	0	—	29	0	0	24	0	0	—	26	0	0
—		Gallipoli	55	0	0	—	56	0	0	59	0	0	—	61	0	0
Rum,	bd.	Jamaica (10 to 20 O. P.)	0	4	1	—	0	4	5	0	0	0	—	0	0	0
—	bd.	Demerara (3 to 20 O. P.)	0	3	6	—	0	4	3	0	3	4	—	0	4	2
Saltpetre,	bd.	rough (cwt.)	1	5	6	—	1	7	6	1	3	6	—	1	7	0
—		British refined	1	11	6	—	1	12	0	1	8	0	—	1	8	6
Silk,		Italian (Piedmont, white, per lb.)	1	16	0	—	2	6	0	1	15	0	—	2	3	0
—		Modina (raw)	0	19	0	—	1	0	0	0	19	0	—	1	0	0
—		Brutia (Turkey)	0	15	9	—	0	16	0	0	16	6	—	0	17	0
—	bd.	Bengal Novi	0	14	0	—	1	2	0	0	14	0	—	1	2	0
Sugar,		Jamaica (fine, per cwt.)	3	4	0	—	3	8	0	3	6	0	—	3	8	0
—		Mauritius (brown)	2	2	0	—	2	13	6	2	13	0	—	2	19	0
—	d. p.	East India (Bengal, yellow)	2	14	0	—	3	4	6	2	19	0	—	3	6	6
Tallow,		Petersburg (Y. C. cwt.)	2	19	0	—	2	19	3	2	9	0	—	0	0	0
—		Delivery to the end of year	2	19	3	—	0	0	0	2	9	0	—	0	0	0
Tea,		Bohea (Canton, per lb.)	0	0	9	—	0	0	11	0	2	2	—	0	0	0
Tobacco,	bd.	Kentucky and Carolina	0	0	5	—	0	0	9	0	0	4½	—	0	0	9
—	bd.	Virginia (ordinary)	0	0	4¾	—	0	0	6	0	0	4½	—	0	0	6
Timber,		Quebec oak (load)	7	0	0	—	7	10	0	7	0	0	—	7	10	0
—		— pine (red)	4	12	6	—	4	15	0	4	10	0	—	4	15	0
—		Riga fir	5	12	6	—	0	0	0	5	12	6	—	0	0	0
—		Dantzic and Memel	5	2	6	—	5	10	0	5	2	6	—	5	10	0
Wool,		Germany Electoral, per lb.	0	4	6	—	0	5	0	0	3	6	—	0	5	0
—		— lower qualities	0	1	7	—	0	1	11	0	1	8	—	0	2	0
—		Australian and V. D. Land, 1st combing	0	2	4	—	0	2	10	0	2	2	—	0	2	6
—		— — 2d —	0	1	9	—	0	2	3	0	1	7	—	0	2	0
—		— — 3d —	0	1	5	—	0	1	8	0	1	1	—	0	1	6
—		English—N. & S. Down Hoggits	0	1	8	—	0	1	10	0	1	6	—	0	1	7
—		— Kent combing fleeces	0	1	7	—	0	1	8	0	1	3	—	0	1	6
—		— The longwool of Lincoln, Leicester, Warwick, from the grower	0	1	5	—	0	1	7	0	1	1	—	0	1	5

APPENDIX C.

Continuation of TABLES OF PRICES, as given in Appendix to Vol. II.

Year.	January 8 a 15.	March 28. a April 7.	July 10 a 16.	November 8 a 15.	January 8 a 15.	March 28. a April 7.	July 10 a 16.	November 8 a 15.
	ASHES, Barilla, Carthagena, in Bond.				**FLAX, St. Petersburg.**			
1838	No price.	Idem.	Idem.	Idem.	35l 39l	35l 39l	No price.	38l 39l
1839	No price.	Idem.	Idem.	Idem.	40l	42l	42l 48l	40l
	ASHES, Pearl, Danzig or Russia.				**HEMP, St. Petersburg.**			
1838	25/ 28/	26/ 27/	26/6 27/	24/6 25/6	29l 29l 10	29l 29l 10	31l 31l 10	40l 41l
1839	25/ 26/	25/	25/	25/	45l 45l 10	44l	37l	38l 39l
	BRISTLES, St. Petersburg, 1st Quality.				**HOPS.**			
1838	340/ 380/	330/ 340/	360/ 380/	360/ 390/	70/ 140/	84/ 140/	No price.	84/ 189/
1839	360/ 390/	360/ 390/	360/ 390/	360/ 395/	No price.	No price.	75/ 163/	56/ 130/
	COFFEE, St. Domingo, for Exportation.				**LEAD, English, in Pigs.**			
1838	42/ 44/6	42/ 44/	40/6 44/	41/6 44/6	20l	21l 15	20l 5	19l 5
1839	43/ 46/6	45/6 48/6	45/6 48/6	46/6 52/	19l 10 20l	19l 10	18l 10 19l	17l 15
	COFFEE, British Plantation, Superior, in Bond.				**INDIGO, East India, Superior.**			
1838	88/ 125/	90/ 124/	90/ 129/	95/ 141/	7/4 8/	7/ 8/6	6/6 7/11	6/6 8/6
1839	94/ 140/	100/ 144/	103/ 158/	98/ 154/	6/6 9/	6/8 9/5	6/8 9/6	6/6 9/8
	COFFEE, British Plantation, Inferior, in Bond.				**INDIGO, East India, Inferior.**			
1838	63/ 86/	64/ 88/	74/ 88/	82/ 94/	3/6 7/3	3/6 7/	3/3 6/4	3/9 6/6
1839	78/ 96/	84/ 96/	88/ 102/	86/ 98/	4/ 6/6	4/6 6/8	3/6 6/8	3/ 5/9
	COCHINEAL.				**IRON, English, in Pigs.**			
1838	6/4 8/	6/4 8/6	5/6 8/	5/6 7/10	6l 5	6l 5	6l	6l
1839	5/9 8/	5/9 8/	5/6 8/	4/9 7/6	6l	6l	6l	6l
	COPPER, British, in Cakes.				**IRON, Russia, in Bars.**			
1838	92/	91/	88/	91/	13l 10 18l 10	15l 19l 10	13l 15 19l 10	14l 10 19l 10
1839	96/ 97/	91/ 92/	91/	94/	14l 15 19l 10	No price.	19l 10	No price.
	COTTON, West India, &c.				**OIL, Northern Fishery.**			
1838	7½d 12d	6d 11½d	6¾d 11d	7d 11d	No price.	No price.	No price.	34l
1839	7¼d 7½d*	8d 8½d*	7d 7½d*	7d 7¼d*	No price.	32l 10	32l	No price.
	* No price, Demerara.							
	COTTON, Bowed Georgia.				**OIL, Gallipoli.**			
1838	5⅝d 7⅝d	7d 8d	5½d 7½d	5½d 7¼d	53l	54l	56l	[illegible]5l 56l
1839	6¼d 9d	8¾d 9¼d	7½d 9d	6½d 8d	56l	55l 56l	53l	[illegible]0l 61l
	COTTON, Bengal and Surat.				**PROVISIONS.—Butter, Waterford.**			
1838	4d 6⅜d	4¼d 5¾d	4d 5½d	4¼d 5½d	84/ 92/	80/ 90/	86/ 88/	[illegible]1/ 92/
1839	4⅜d 6⅜d	5¾d 6¾d	5d 6¾d	5d 6d	90/ 95/	Nominal.	86/ 93/	[illegible]8/ 93/
	COTTON, Pernambucco.				**PROVISIONS.—Irish, Mess Beef.**			
1838	8½d 9½d	9¾d 10¼d	8½d 9½d	8½d 9¾d	112/6 115/	115/6 117/6	115/	11[illegible]/6 115/
1839	9½d 9¾d	10d 11d	9¼d 10¼d	9d 10d	115/	112/6	125/	12[illegible]/6 128/6

Year.	January 8 a 15.	March 28. a April 7.	July 10 a 16.	November 8 a 15.
	RICE, Carolina.			
1838	32/ 34/	34/ 36/	36/ 38/	38/ 40/
1839	42/ 44/	38/ 40/	38/ 40/	38/ 40/
	SALTPETRE, East India, Rough.			
1838	21/ 26/6	22/ 25/	21/6 25/	23/ 26/6
1839	28/ 29/6	26/6 28/6	23/ 27/	23/ 27/
	SILK, Bengal.			
1838	14/ 22/	14/ 22/	12/6 22/	14/ 22/
1839	14/ 22/	13/ 21/6	12/6 20/	14/ 22/
	SILK, China.			
1838	16/ 23/6	17/ 26/	18/6 26/	19/6 26/
1839	19/6 26/	20/6 25/	*22/ 26/	*22/6 28/
	* No Taysaam.			
	SILK, Milan.			
1838	22/6 26/	22/6 26/	21/6 26/	24/ 27/
1839	24/ 27/	22/ 26/	21/ 25/	21/ 25/6
	SPICES. — Cinnamon.			
1838	6/6 8/	6/3 7/6	6/6 7/6	7/6 8/3
1839	7/9 8/6	7/6 8/6	7/3 8/	6/3 7/10
	SPICES. — Pepper, Black, East India.			
1838	4d 4¼d	4d 4¼d	3¾d 4¼d	3¾d 4⅜d
1839	4d 4⅜d	4d 4⅜d	3⅞d 4¼d	3⅞d 4⅜d
	SPIRITS. — Rum, Jamaica.			
1838	3/1 5/	3/1 5/	3/3 5/	3/10 5/6
1839	4/1 5/6	4/2 5/10	5/6 6/8	5/1 6/4
	SUGAR, East India, White, in Bond.			
1838	41/ 44/	36/ 41/	35/ 43/	40/ 43/
1839	40/ 44/6	41/6 44/6	42/ 44/6	43/ 46/
	SUGAR, East India, Brown.			
1838	30/ 37/6	23/ 29/	22/ 30/	20/ 29/
1839	21/ 28/6	20/ 29/	36/ 38/	41/ 44/
	SUGAR, Havannah, White, Export.			
1838	36/ 42/	42/ 47/	34/ 40/	35/ 42/
1839	35/ 42/6	33/ 41/	34/ 40/	38/ 43/
	SUGAR. — Muscovado's Averages.			
1838	42/1½	33/3	31/6¾	31/1¾
1839	35/7¾	39/9¾	40/6½	38/1¼

Year.	January 8 a 15.	March 28. a April 7.	July 10 a 16.	November 8 a 15.
	TALLOW, Russia.			
1838	42/6	47/ 48/	46/ 47/	55/6
1839	57/ 57/6	45/9 48/9	47/ 48/	48/9 49/3
	TAR, Stockholm.			
1838	15/6	16/6	19/	17/
1839	17/6	17/6	17/6	16/3 16/6
	TEA, Congou.			
1838	1/7½ 3/4	1/6½ 3/0¾	1/2 2/10	1/ 2/9
1839	1/2 2/9	1/0½ 2/6		
	TEA, Hyson.			
1838	2/3½ 6/6	2/3 5/7	2/2 6/	2/ 6/4
1839	2/ 6/4	2/ 6/4		
	TIMBER, Memel Fir in Bond.			
1838	2l 10 2l 15	2l 10 2l 15	2l 2/6 2l 15	2l 7/6 2l 15
1839	2l 7/6 2l 15	2l 10 2l 15	2l 2/6 2l 15	2l 7/6 2l 15
	TIMBER, Quebec Yellow Pine in Bond.			
1838	3l 0 3l 5	3l 3l 5	4l 2/6	3l 15
1839	3l 15	3l 3l 5	4l 2/6	3l 15
	TIN, English, in Bars.			
1838	89/ 89/6	94/ 94/6	89/ 89/6	85/ 85/6
1839	87/ 87/6	88/ 88/6	85/ 85/6	82/ 82/6
	TOBACCO, Virginia, in Bond.			
1838	2¾d 7½d	2½d 8½d	2½d 6¾d	4¾d 9d
1839	5d 12d	6½d 12½d	5d 12½d	4½d 12d
	WHALEBONE, Northern.			
1838	260l	280l	275l	200l
1839	200l 240l	210l	190l	220l 250l
	WHALEBONE, Southern.			
1838	175l	120l	148l 156l	110l 120l
1839	125l 130l	120l 135l	105l 115l	145l 150l
	WOOL, Spanish Leonesa.			
1838	2/2 2/8	2/2 2/8	2/2 2/8	2/2 2/8
1839	2/3 2/8	2/5 3/	2/6 3/	2/2 2/10
	WOOD. — Jamaica Logwood.			
1838	7l 7l 5	6l 15 7l	7l 7l 10	11l 11l 10
1839	11l 12l	10l 10l 10	8l 8l 10	8l 5 9l

THE END.

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HISTORY

OF

PRICES,

AND OF

THE STATE OF THE CIRCULATION,

FROM 1839 TO 1847 INCLUSIVE:

WITH

A GENERAL REVIEW OF THE CURRENCY QUESTION,

AND

REMARKS ON THE OPERATION OF THE ACT

7 & 8 VICT. C. 32.

BY

THOMAS TOOKE, ESQ. F.R.S.

BEING A CONTINUATION OF THE HISTORY OF PRICES

FROM 1793 TO 1839.

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New-street-Square.

TO

ALEXANDER BLAIR, ESQ.

TREASURER OF THE BANK OF SCOTLAND,

DRYLAW HOUSE,

NEAR EDINBURGH.

MY DEAR SIR,

As it was during a residence of some weeks under your hospitable roof, last autumn, that I began this work, I thus place your name upon its front, as a grateful acknowledgment, to you and Mrs. Blair, of the feelings of pleasure with which I shall always recur to that period. In the forenoon I was allowed the seclusion of a delightfully situated study; and my evenings were most agreeably passed in your family circle.

With the warmest wishes for the health and happiness of yourself and Mrs. Blair, and your amiable Daughter,

I am,

My dear Sir,

Your obliged and attached friend,

THOS. TOOKE.

PREFACE.

THE period comprised within the interval since the close of 1839, to which time my historical sketch of prices, and of the events connected with them, had been brought down, until the close of 1847, has been marked with extraordinary changes, affecting, in their most material interests, all classes of the community.

We have experienced great vicissitudes in the supply of food for the population, from dearth to abundance, and again from abundance to famine; succeeded, finally, by the return of comparative plenty. We have also witnessed the transition from distress and despondency, and a general prostration of the energies of the country, pervading all branches of industry, in the years 1840, 1841, 1842, and part of 1843, to a state of extraordinary prosperity, activity, and excitement, which prevailed through the three following years. While the last year of the series has been mournfully distinguished by a degree of commercial discredit, and by mercantile and banking failures, unparalleled, in number and extent, since 1825. And the variations in the rate of interest, especially in 1847, have been more fre-

quent, and more violent, than any of which there is an example in the history of the commerce of this country.

During the same interval, great alterations have been made in the corn laws, in our commercial tariff, and in our banking system.

The great importance of these changes in the condition of the country, and of the alterations of our laws, in so far as these may be considered to be connected, would seem to call for a historical record of them, accompanied by such explanations derived from an extensive and connected view of facts, as might be calculated to throw light upon the phænomena by which the period from the close of 1839 to that of 1847 has been signalised.

As, besides, the whole of this eventful period, and more especially the latter part of it, has been pregnant with facts calculated, in a striking manner, to exemplify and confirm the views which it was my object, in the "History of Prices," to set forth, it forms a fitting occasion for a continuation of that work.

Accordingly, I had it in contemplation last spring, when the state of the corn trade, and of the money market, invested the subject with considerable interest, to undertake the preparation of a fourth volume. But I recoiled at the idea of the labour it would entail. As the summer advanced, however, the motives which had led me to contemplate the undertaking acquired additional strength.

Notwithstanding the lull which followed the

shock of April, I became strongly impressed with the opinion that there was reason to apprehend another period of pressure before the end of the year. It is well known that I entertained and expressed that apprehension; the grounds for it, it is not necessary now to state.

I mention my forebodings of a second crisis, chiefly for the purpose of observing that while it strengthened the motives which urged me to the task I contemplated, it added to the difficulty of my accomplishing it; for if my forebodings of commercial discredit, combined with what I considered was likely to be the operation of the banking act, should be realised, it was in the highest degree probable that the new parliament, on its meeting, would have its attention drawn to the general state of commercial credit, in connection with the act of 1844. This consideration rendered it important that whatever I might determine to publish should be completed by, or soon after, the meeting of parliament, at the usual time of its assembling; because if the information I had to impart was calculated to be of any use, it would be more especially so by being available in the discussions and inquiries to which, in the state of things which I contemplated, the subject would give rise.

But to accomplish such a work, doing any thing like justice to it, within so limited a time, (for I had not written a line, or made any other preparation for it, till near the middle of August,) would hardly have been within my power at any time, and must,

at my time of life, have been out of the question. I should, therefore, have abandoned the attempt in despair, had not my friend Mr. Danson, while he strongly urged me to undertake the task, offered his assistance towards the performance of it.

Mr. Danson is advantageously known to those persons, and they are not a small number, who have had an opportunity of seeing, in the Journal of the Statistical Society, a valuable paper, drawn up and read by him before that Society, in January 1847, on the Accounts of the Bank of England, under the operation of the Act 7 & 8 Vict. c. 32.

Of his offer I gladly availed myself; and the assistance which he has afforded in enabling me to bring out this volume, has been, to me, of inestimable value.

He has supplied the whole of the elaborate and accurate statistical statements and tables in the work, with the exception of the small number in the 11th section of the third division of it.

Of the first division (namely, that on the seasons and the corn trade), the description of the character of the seasons, and their relative productiveness, and the conjectural opinion of the probable future range of prices are mine. For the statements of prices and quantities, and the reasoning upon these, I am indebted to Mr. Danson. To him, likewise, I owe the contribution of by far the greater part of the second division of the book, on the prices of produce other than corn. And he has afforded me the

further essential service of conducting the whole of the work through the press.

To my friend, Mr. Newmarch, I have to express my obligation for important assistance which he rendered me in the general arrangement of the third division of the volume; and for his contribution of the statistical tables in section 11. of that division.

It will be observed, that in the argument on the act of 1844, there is a large number of extracts, some of considerable length, from my pamphlet of 1844, and from other publications.

The extracts from my own tract contain facts or reasonings essential to the argument. If to avoid the appearance of quoting from a work of my own, I had stated afresh the same views, I am not sure that I should have expressed them better; and I could ill spare the time for such additional labour.

And whenever, in the writings of others on the subject, I have met with passages confirmatory, or illustrative, of the views which it fell in the way of my argument to urge, I have not scrupled to avail myself of them largely. Independently of the support which my opinions were likely to derive from such eminent authority, (not to mention the consequent saving of my own time and labour.) I considered that my readers would be thankful to me for the opportunity thus afforded to them of seeing, in the forcible and eloquent language of Mr. Fullarton, in the philosophic exposition of Mr.

Mill, and in the remarkably lucid style of Mr. Wilson, the arguments which I should be hopeless of being able to state with the same effect. Such extracts impart, moreover, some variety to the discussion of a subject which, at best, is any thing but attractive.

Just as the press is closing upon this volume a pamphlet by Colonel Torrens, which came out two days ago, has been put into my hands. It purports to be a defence of the act of 1844, against my objections, and those of Mr. Fullarton and Mr. Wilson.

I am glad to find that there is little, if any thing, in it which will not be found to be dealt with, and, I trust, sufficiently answered, in the following pages.

If the earlier volumes of the present work be critically examined, there will be found in them some remains (chiefly, however, in the phraseology) of my former attachment to the currency theory, as it was generally received, before it had been caricatured by the modern school.

In the correctness of the following sketch by the hand of Mr. Fullarton, of the progress of my opinions to those which I now entertain, I fully acquiesce, and lest his estimate of the value of my contributions to an extension of the knowledge of

this subject, should be ascribed to the bias of friendship, I think it right to state that the distinguished author was unknown to me, except by name and reputation, till after the publication of his treatise, and that I had not the slightest previous knowledge of such a work being in preparation :—

" Mr. Tooke himself has been exceedingly slow in following out his original conclusions on the subject of price to all their consequences. The germ of his present opinions may be traced in the facts, which he collected and laid before the public in the first edition of his great work; but at the time of that publication, in 1823, Mr. Tooke's mind appears to have been still strongly imbued with the prevailing notions, that prices are liable to rise and fall with the increase or diminution of the amount of Bank notes in circulation, that banks have it in their power to increase at pleasure the quantity of paper money, and that the efflux and influx of gold are to be regulated by regulating the issues of the banks. He adhered to these doctrines even after he had refuted them by his discoveries, and seems to have parted with them at last only by degrees and with reluctance, under the pressure of his growing convictions. The progress of those convictions may be traced through their successive stages in his various publications, and in the evidence delivered by him before diverse Parliamentary Committees. His pamphlet on the Currency, published after the crisis of 1825, might, for aught to the contrary that can be gathered from its doctrines, have almost been the production of Mr. Loyd or Mr. Norman. It is in his examination before the Commons' Committee of 1832, that we perceive the first decided indications of the revolution which was gradually taking place in his mind, though even then he had not yet brought himself to discard entirely the old theory of prices, but professed himself still ready to admit that prices are liable to be influenced by the amount of the circulating medium. The second and altered edition of his work on prices, published under a new title in 1838, exhibits in a more elaborate shape the conclusions to which

his continued observations had led him; though, even in those volumes, passages of the original treatise have been retained, which do not seem altogether in harmony with the new doctrines which he had espoused. Nor was it till the appearance in 1840 of his 'History of Prices in 1838 and 1839,' that the system which he had been so long maturing received its full development. These slight appearances of wavering, which, rightly viewed, ought rather to be considered as proofs of the caution and deliberation with which he formed his judgments, have been charged against him as inconsistencies, and advantage has been taken of them to detract from the weight of his authority."

The limits of time within which I have found it necessary to confine myself, have deterred me from entering upon some points which are, more or less, connected with the topics treated of in this volume. But I am the more reconciled to the necessity which compels me to abstain from touching upon these, because they will, doubtless, be among the objects to which the inquiries of the committees of the two houses of parliament will be directed, with the advantage of their being enabled to collect information which I have not the means of obtaining, and without which no judgment, entitled to much weight, could be formed.

London,
5th February, 1848.

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ERRATA.

Page 28. line 11. from bottom, for "71*s*. 2*d*." read "68*s*. 9*d*."
47. line 6. from bottom, for "at this unusually" read "at this time unusually."
78. Table—for "Wool, English, Fleeces, *lb*.," read "Wool, English, Fleeces."—Price of Indigo in Sept. 1847, for "1*s*. 8*d*. to 6½*d*.," read "1*s*. 8*d*. to 6*s*. 2*d*."—Price of Logwood, for "£4 5*s*. to £4 5*s*." read "£4 to £4 5*s*."
102. line 8. for "one or two" read "one of two."

PART I.

ON THE PRICES OF CORN FROM 1840 TO 1847.

DURING the last few years a striking change has taken place in the degree of attention given to the effect of the seasons on the price of provisions. It is not now the farmer or the corn dealer only, who watches with painful anxiety the state of the weather at the several critical periods in the growth of the different descriptions of produce, and, from what he thus observes, infers the probable range of prices, and of his own fortune, in the ensuing year. Such anxious observation has of late been scarcely less common in the counting-house and on the stock-exchange than on the farm and in the corn market. Every passing cloud, indeed, may at those periods be said to have had some effect on the prices of public securities, and of shares in railways, and other joint stock companies, in consequence of the apprehensions entertained of the unfavourable influence of high prices, and of large importations of corn, on the rate of interest, and on banking accommodation.

Any one who may recollect, or will be at the trouble of referring to, the city articles of the daily papers in June, July, and August of each year since 1839, will be sensible of the importance attached, in what is now called the money market, to the state of the weather. If any material variation occured in the price of the Government funds, or of shares, it was not unfrequently, or I should rather

say it was generally, ascribed to the wet or fair weather of the day, modified more or less by the reports of the state of the growing crops in the earlier, and of their appearance in the later, stages of their growth. Nor is this increased attention given, as formerly, only for the time.

The effect of the seasons is now constantly regarded as a primary element in all well considered speculations touching the condition, past or present, of the numerous and various interests affected, directly or indirectly, by the prices of agricultural produce. It may even be doubted whether too much weight is not sometimes attached to this particular class of causes, to the exclusion of others, for the time being, less obvious, or less frequently adverted to. Be that, however, as it may, the change alluded to in the public mind affords me the advantage of not having to apologize, as I considered it incumbent upon me in the earlier volumes of this work to do, for attaching so much importance to the influence of the seasons. And the corn laws being, as I now believe, finally settled, I am also dispensed from discussing, as I had occasion to do when treating of the corn trade in connection with the seasons in 1838 and 1839, the merits of that vexata quæstio. My task therefore in the portion of my work which I am now entering upon will be more simply historical than it was in the previous volumes.

SECTION 1.—*Character of the Season of* 1839–40.—*Prices and estimated Produce of Wheat.*

The history of the prices of corn in connection with the seasons and other circumstances affecting them, was, in the work of which this is a continuation, brought down to the close of 1839.

The season of 1839 had been the second of two, in immediate succession, in which the harvests, especially as regarded the crops of wheat, were very unproductive, and nearly in the same degree.

The deficiency of the two successive crops of 1838 and 1839 entailed the necessity of very large foreign supplies. The quantity of imported wheat and flour entered for consumption between the 5th of August, 1838, and in the same period in 1840, while the produce of these two harvests may be supposed to have been in the market, was more than 5,300,000, quarters.* The average price of wheat had fluctuated in the same interval from 61*s*. 10*d*. to 81*s*. 6*d*., and the duty on wheat imported, from 1*s*. to 20*s*. 8*d*., while the average duty paid on the whole of the quantity entered for home consumption was under 3*s*. 7*d*. per quarter.

Though the deficiency of the crop of 1839 was supposed to be nearly if not quite as great as that of the crop of 1838, the foreign supplies to meet

* The precise quantities entered, with their distribution over the period in question, were, according to the official accounts, as follows:—

	Quarters.
Foreign and colonial wheat and flour entered for consumption in the United Kingdom from the 5th of August, 1838, to the end of that year - - - - - - - -	1,827,088
Entered in 1839 - - - - -	2,712,555
„ in 1840 down to the 5th of August -	784,528
	5,324,171

the deficiency in the year 1839, were much larger in proportion than in the previous year; and this, combined with a general inferiority of quality in the home produce, had the effect of causing a decline of the average price of wheat from 81*s.* 6*d.*, which it had reached in the second week of January, 1839, with no important oscillations, to 65*s.* 6*d.* in November following.

The whole of the Autumn, to the very close of 1839, was excessively wet, so as almost wholly to prevent the sowing of wheat at the usual season. This extreme wetness continued (with the exception of two days of slight frost early in January) to the 17th of February, 1840; with occasional snow, which, however, did not lie. Thenceforward there was a succession of dry, cold, easterly winds, and night frosts (with occasional snow) to the second week of April. This interval of dry weather was highly favourable to farming operations, and admitted of a large breadth being sown with spring wheat.

In the first week of May, vegetation was more forward than it had been at that period in any of the four years preceding; and the whole of that month, and of June, had a fair proportion of seasonable weather.

July was, throughout, cold and wet. This unfavourable weather, combined with a general impression that the stocks of old wheat were low, and that the growing crop (a considerable proportion of it being spring sown) would not prove to be a large one, favoured the speculations for a rise of price. The weekly average consequently advanced to 72*s.* 10*d.* in the week ending the 7th of August, and the duty fell on the 28th to 2*s.* 8*d.* per quarter. But the weather in August proving generally favourable to the ripening and gathering of the crops, and the wheats being reported to be better than had been expected, there was no longer any speculative ground for antici-

pating a further advance of prices, and fall of duty. The whole stock of wheat, therefore, then in bond, amounting to about 1,500,000 quarters, was entered for home consumption. This quantity of foreign corn being suddenly let out just at the time that supplies of the new crop were coming forward in a condition for immediate use, caused a somewhat rapid fall of prices during the remainder of the year. From 72*s.* 10*d.*, in August, the price fell to 58*s.* 10*d.* in the second week of December following; being a fall of 14*s.* in four months. As, however, the result of the harvest, on the further progress of threshing out, gave reason to suppose that there would not, with the foreign corn admitted, be more than sufficient to last till the ensuing harvest, the price thenceforward slowly advanced.

The total quantity of wheat and wheat-flour, (the latter being stated as wheat at the rate of 392 lbs. to the quarter) entered for consumption in the United Kingdom, between the 5th of August, 1839, and the same date in 1840, was 1,762,483 quarters.* This, therefore, may be regarded as an approximation to the quantity of foreign and colonial wheat actually taken into consumption with the produce of the harvest of 1839.

The official average price of wheat for the year 1839 was 70*s.* 8*d.* per quarter, and for 1840 it was 66*s.* 4*d.* Neither of these, however, can be received as indicating the average price of the year during which the crop of 1839 was in course of consumption. The average price of the *harvest* year, computed from the averages of the fifty-two weeks following the first week in August, 1839, was about 68*s.* per quarter.†

* See statement in detail in the Appendix.

† Though the actual date of the gathering of the wheat crop varies considerably between the northern and southern districts of England, in which the weekly averages above referred to are taken, and the commencement as well as the close of the harvest in the United Kingdom is not unfrequently hastened or delayed

According to the best estimates, formed at the time, of the wheat harvest of 1840, the average yield per acre exceeded that of either of the two previous harvests by about one third. The breadth of land sown, however, (the autumn of 1839 having been extremely unfavourable for farming operations) was probably much less. The returns of the corn inspectors show that while the quantity of wheat sold in the inspected markets in England and Wales in the twelve months following the first week in September, 1839, was about 4,000,000 of quarters, the quantity sold in the same period of 1840–41 was only 3,870,000 quarters; thus favouring the assumption, founded on the combined estimates of the breadth of land sown and the average yield, that the crop of 1840 did not, in fact, materially, if at all, exceed that of 1839.

a week or two by the character of the season, these variations do not materially affect the computations in the text. The first week in August is probably a month earlier than the period at which any considerable quantity of the new crop usually appears in the market. But the estimated yield of the harvest operates upon prices for some time previously; and the annual fluctuations of the weekly average price, prove that the first week in August may, for all practical purposes, be taken as the period when prices cease to be influenced by the old and begin to be dependent upon the new crop. It should also be observed that the price stated in the text, as that of the harvest year, is only offered as an approximation to an accurate average. (See Appendix.)

The quantity of home-grown corn sold in the inspected markets in England and Wales, apparently the produce of each harvest, is computed from the first week in September forward, because a careful examination of the returns of the corn inspectors, in conjunction with contemporaneous reports from the chief markets, leads to the inference that that is the period at or about which the new wheat first appears at market.

The quantity of imported wheat entered for consumption is computed from the fifth of August, because the revenue return for the month ending the fifth of September, has hitherto commonly included the greater part of the entries of the current year; and any but a small quantity entered after the fifth of August must obviously be received as going into consumption rather with the new than with the old crop.

SECTION 2.—*Character of the Season of* 1840–41. *Prices and estimated Produce of Wheat.*

The weather during the autumn of 1840 presented nothing remarkable. Upon the whole it was favourable to farming operations, till the month of December. The last three weeks of this month, as well as the first half of January, were characterised by a much lower temperature than usual: frost prevailing so severely as totally to impede the navigation of the Thames. In the night of the 7th and 8th of January the thermometer was lower than it had been since January, 1838; but the latter half of this month was comparatively mild. The first ten days of February were attended with frost of some severity, and occasional snow.

Thus far the winter of 1840–41 may be considered to have been a rigorous one; but its rigour was not marked by such continuousness and severity of frost, nor did it extend so far into the spring; as some former ones; for after the second week of February there was very little of either frost or snow. It cannot, therefore, be classed among the more memorable instances of long and severe winters.

The weather in March was variable, but a large proportion of it was fine; and there was less of strong easterly wind than usual. Of the spring quarter, from Lady-day to Midsummer, the prevailing character was cold, gloomy and wet, with much wind: the number of fine days being very small.

From Midsummer to Michaelmas, embracing the important periods of the blooming, the ripening, and the gathering of the crops, the weather was for the most part cold, wet, and ungenial. On the 15th of July there was a remarkably heavy fall of rain; and on the 8th of August prayers were put up in the churches for fair weather.

After the 14th of August there were somewhat longer intervals of fair weather; but not enough to redeem the general character of the summer, as decidedly wet and cold throughout.

The total quantity of imported wheat and flour entered for consumption in the United Kingdom between the 1st of August, 1840, and the same date in 1841 was 1,925,241 quarters.* The foreign supply taken into consumption with the crop of 1840 may therefore be estimated to have exceeded that so taken with the crop of 1839 (1,762,483 qrs.) by nearly 200,000 quarters.

The average price of wheat, in England and Wales, for the harvest year 1840–41, was 63*s.* 6*d.* per quarter, or 4*s.* 6*d.* lower than that of the harvest year 1839–40.

The backwardness of the season of 1840–41, and the prevalence of rainy weather in the time of the flowering of the wheat, and during the progress of the harvest, favoured the speculation for a rise of prices and a consequent fall of the duty. Accordingly the weekly average reached 76*s.* 1*d.*, and the aggregate average 73*s.* 2*d.*, early in September, when, the duty having fallen to 1*s.*, there were entered for home consumption in that month 2,178,966 quarters of wheat and flour.

The crop of wheat of 1841, though backward, and injured by the rains, was of considerable breadth, and of great bulk on the ground. The produce was at the time computed to be nearly an average in quantity, but very inferior in quality. This inferiority of quality, combined with the large foreign supply suddenly let in in September, caused a rapid fall of the weekly average, which got down to 61*s.* 6*d.* in the first week of October: being a decline of nearly 15*s.* within six weeks. The

* Of this quantity, the greater part (1,132,000 quarters) was entered in September, 1840, at an average duty, on the foreign portion of it, of 3*s.* 11*d.* per quarter.

markets rallied a little thenceforward, till the close of the year, when the average was 62*s.* 10*d.*

There is reason to believe that the ultimate yield of the wheat harvest of 1841 fell considerably short of the estimates made in the first instance. The official returns show an aggregate sale in the inspected markets in England and Wales, in the year following the first week in September 1841, of only 3,626,000 quarters.* The supply by importation was very large, upwards of 2,900,000 quarters having been entered for consumption between the 5th of August, 1841, and the same date in 1842; fully four-fifths of it being entered within the last four months of 1841. The average price of the harvest year (1841–42) having been, notwithstanding the absorption of this large foreign supply, and the general inferiority of the grain, no less than 63*s.* 4*d.*, or very nearly as high as that of the previous year, the inference of a reduced home supply, in point of quantity, is almost irresistible; particularly as the year 1841–2 was that in which the means of purchase, and consequently the demand, of the majority of the consumers was, probably, from the depressed state of trade, at its lowest point.

The season of 1841–2 was the last of four in which the home supply of corn, generally, and of wheat more especially, was deficient in a greater or less degree. The prices of meat, also, were at a somewhat high range, the long prevalence of cold and wet weather having been injurious to the cattle and sheep; and the whole interval from the summer of 1838 to that of 1842 must be characterised as

* The number of markets from which returns were obtained was increased, by the act 5 & 6 Vict. c. 14., from 150 to 290; and the change appears to have affected the returns of the last nine or ten weeks of the harvest year 1841–2. Had this change not been made, the quantity stated in the text would probably have fallen short of 3,500,000 qrs.

a period of dearth. The dawn of an improved prospect commenced with the season of 1841–2.

Section 3.—*Character of the Season of* 1841–42. —*Prices and estimated Produce of Wheat.*

After a very rainy autumn, and a prevalence of wet weather to the close of 1841, which retarded the sowing of wheat, the winter of 1842 was favourable to farming operations; there being frequent frosts, but not severe, and occasional falls of snow, but not heavy, or remaining long on the ground. April was severely cold, with an almost constant prevalence of strong, dry, easterly winds; and the greater part of May was cold, showery, and windy. And at this period the crops of wheat were reported to be backward, and thin on the ground, with an appearance in every way unpromising.

The variations in the price of wheat, and in a lesser degree in the prices of other descriptions of grain, were, in the course of this year, greater than those which had occurred in any of the three preceding years. The average price of wheat in the first week of January was 63*s*., from which it fell gradually to 57*s*. 8*d*. in April. This decline might be in some degree attributable to the change in the corn law, which was announced by Sir Robert Peel, in his speech on the budget, on the 1st of March. Some relaxation, however, had been anticipated; and the actual announcement of the proposed alterations in the import duties on corn did not appear to exercise any considerable influence on the markets. This comparative absence of influence from the alteration of the law would lead to the inference which, indeed, corresponds with the opinions then prevailing in Mark Lane, that the stocks of wheat on hand were within a moderate compass, and barely sufficient to supply the

consumption till harvest.* The impression to this effect was strengthened as the spring advanced, by the cold and ungenial weather in April and May, which (apart from the reports prevalent of injury to the crops) was calculated to render the harvest a late one. A spirit of speculation hence arose upon the probability of the necessity for a foreign supply, which supposed such an advance of the average price as would reduce the duty to its minimum rate of 1*s.* per quarter. Under the influence of this spirit of speculation, in which the farmers seem to have participated so far as to abstain from supplying the markets freely, prices rose, so that the weekly average reached 65*s.* 8*d.* on the 16th of July.

In the mean time the speculation had a more important consequence in the shape of extensive arrangements with a view to a large importation of foreign corn.

But the weather becoming suddenly fine and warm in June, a great and most beneficial change took place in the appearance of the crops. Indeed so sudden was the change that I heard at the time, from persons who were among the best informed in the corn trade, that the alteration for the better caused by the bright and hot weather of the first fortnight of June might pass as something almost miraculous. Thenceforward the season continued to be of a favourable character: there being only so much rain as was calculated to improve rather than to injure the crops. And favourable as the season was in the southern division of the island, it was, if possible, still more so in the northern. In Scotland it was considered to be the finest and hottest summer that had been known there since 1826: and, accordingly, their harvests were remarkably forward, the reaping of wheat having

* The whole quantity of foreign and colonial wheat in bond at the end of March, was 174,662 quarters.

been general, and a good deal carried, in August. And the whole of the crops were secured in that and in all other parts of the United Kingdom in the best possible order. The quality was regarded as generally good, and the yield satisfactory; and on an average throughout the Kingdom the grain was housed about a fortnight earlier than usual.

The prices of corn had reached their greatest height by the end of June; but the average price of wheat regulating the import duty did not exhibit the full extent of the rise till the 28th of July, when it reached 64*s.* 7*d.* The duty was then 8*s.* per quarter *, at which rate it continued till near the middle of August. The subsequent fall of the weekly average price making it certain that the duty would immediately rise, and all chance of a rally of the markets being evidently hopeless, the whole of the wheat and flour at that time in bond, and the cargoes recently arrived, but not yet landed, amounting to about 2,000,000 of quarters, were entered for home consumption.†

The sudden admission of so large a quantity of foreign corn, coincidently with the securing of a full crop, of good quality, of our own growth, and in such condition that the greater part was fit for being immediately brought to market, could not fail to cause a great reduction of price. Accord-

* This was the lowest point reached by the duty in the summer of 1842, being the rate fixed by the new tariff when the six-weeks average price should be 64*s.* and under 65*s.* The price reached 64*s.* 1*d.* on the 14th of July, and did not fall below 64*s.* until the 18th of August. The duty of 8*s.* thus remained in operation for five weeks.

† The quantity of wheat and flour entered for consumption between the 5th of August, 1841, and the same period in 1842, and so, apparently, taken into consumption, with the crop of 1841, had been 2,985,422 quarters; of which no less than 2,178,966 quarters were, as has been stated, entered in September, 1841. The entire quantity entered in the month ending the 5th of September, 1842, was 2,240,233 quarters; leaving only about 8,900 quarters in bond at the end of the month.

ingly the averages declined, rapidly and progressively, till they got down to 46*s.* 10*d.* in the week ending 24th December, being a fall of no less than 18*s.* 10*d.* from the weekly average in July. And the real fall was greater than appears by these figures; for the quality of the wheat of the harvest of 1842 was very superior to that of 1841. If allowance were made for this difference, the fall of price between July and December would be fully 20*s.*

The results of the large importations referred to proved to be most disastrous to the parties concerned. It was computed that the difference against the importer, between the cost, exclusive of the duty, and the net proceeds, could not, on the average, be less than 12*s.* per quarter: to which adding 8*s.* duty makes 20*s.* per quarter, as the lowest estimate of the loss sustained on the whole quantity imported. And as the importers and speculators for a rise were generally possessed of but little capital, compared with the credit they obtained, the failures were numerous, and the loss fell very heavily, in some part on the shippers abroad, but chiefly on the corn factors and dealers in this country.

The yield per acre of the wheat harvest of 1842 was estimated at the time to exceed, by fully one-fourth, that of either of the two years immediately preceding; and the opinion that the crop was an unusually large one is amply confirmed by subsequent events. The returns of the corn inspectors for the twelve months following the first week in September, 1842, exhibit an aggregate quantity of home-grown wheat brought to market exceeding 5,000,000 of quarters.* The foreign supply entered for consumption in the year between August, 1842, and August, 1843, was about 2,405,000 quarters, or

* This quantity cannot be compared with that of any prior season, as the number of markets actually inspected was increased, about June 1842, under the corn law of that year.

nearly 600,000 quarters less than in the year preceding. And the average price of the harvest year 1842–3 was only 49*s.* 4*d.*: that of 1841–2 having been 63*s.* 4*d.**

Section 4.— *Character of the Season of* 1842–43. *Prices and estimated Produce of Wheat.*

The weather in the last three months of 1842 was seasonable. In November there was less fog than usual. The first ten days of December were attended with more or less of fog; but the whole of that month was marked by a higher temperature, and the last three weeks of it by a larger proportion of fine, bright, and mild days, than usual.

Altogether, the winter was an open one. There was occasional frost; but it was not severe or continuous; and there were several falls of snow, but it did not lie. Heavy gales of wind occurred in January; and on the 12th of that month there was a violent storm. February was very rough and raw, with alternations of frost and thaw, rain and snow.

The first fortnight of March was cold and dry. The rest of that month, and the whole of April, was variable; but generally seasonable.

The six or seven weeks extending from the beginning of May to the middle of June were marked by an unusual prevalence of wet, and by a temperature low for the season. The rest of June was fair, with the exception of one or two cold days. In

* Nor, in making this comparison, should it be forgotten that the crop of 1842 was brought somewhat earlier into consumption than usual; and, that that of the succeeding year being gathered late, the former must have supplied the current demand during somewhat more than a year; and, further, that from the spring of 1843 forward, the revival of trade, by increasing the means of the consumers, doubtless tended to increase the quantity consumed.

July the weather was variable, with a good deal of rain, but not continuously; some days were of summer heat, and others, especially the 23rd, unusually cold.

The weather continued thus till the end of the first week in August. Apprehensions having been generally entertained of consequent damage to the harvest, the weekly average price had then risen progressively for some weeks; and on the 12th of August it reached 61*s*. 2*d*., and the duty fell, by the end of the month, to 14*s*. per quarter.

After the 6th of August, however, there was a general prevalence of fair summer weather. The only exceptions were thunderstorms on the 9th and the 16th, and three days of rain from the 21st to the 23rd of that month. From the 26th of August to the 25th of September, one entire month, the weather was extremely and uniformly fine, bright, and hot. Consequently, though the harvest was, in most places, ten days or a fortnight later than usual, the crops of corn were secured, even to the extreme north of the island, in the best possible condition.

The price of wheat declined about 10*s*. per quarter in the month following the middle of August; and all the wheat and flour then in bond (about 750,000 quarters) was entered for consumption, during the last days of August and the first of September, at an average duty of about 14*s*. per quarter. Thenceforward prices varied but slightly to the close of the year.

What has been said of the weather during the growth of the corn crops of 1843 sufficiently accounts for the description generally given of them when gathered. In the southern districts of England, which were most severely affected by the unfavourable weather prevalent up to the beginning of August, the yield was generally defective. In the northern counties, and in Scotland, where the

fine weather of August and September came in time to exercise considerable influence on the last stages of growth, and the ripening; and also in Ireland, where the nature of the soil rendered the rains and low temperature of the earlier part of the year less detrimental than they were on the heavier lands of our southern counties, the crops were reported to be larger and of better quality.

The yield of the wheat harvest of 1843, both per acre and in the aggregate, was supposed, at the time, to be nearly the same as that of 1842. Nor is this estimate materially inconsistent with the inference to be drawn from a combined view of the quantities sold in the inspected markets, the amount of the foreign supply, and the range of prices, in the following year. The returns of the corn inspectors show a total quantity brought to market, in the fifty-two weeks following the first week in September 1843, of 5,213,000 quarters, against 5,078,000 quarters in the preceding year. The quantity of foreign and colonial wheat and flour entered for consumption between the 5th of August 1843 and the same date in 1844 was only 1,606,000 quarters, or about two thirds of the quantity entered in the year before. The average price of the harvest year 1843–4 was 53*s.* 9*d.*, or 4*s.* 5*d.* higher than in 1842–3. Thus, if some allowance be made for the effect on price of an increased rate of consumption (in connection with the increased prevalence of profitable employment) in 1843–4, the equality of the home supply in the two years appears to be tolerably well proved.

Section 5.—*Character of the Season of* 1843–44.—*Prices and estimated Produce of Wheat.*

From the last week of September 1843 forward, the weather was seasonably autumnal. In De-

cember it was unusually mild, resembling on some days the fine weather proper to October: there was but little wind, and the barometer was mostly high. This mildness continued through the greater part of January; being only occasionally interrupted by frost, and by slight falls of snow.

In February the cold increased considerably; and there was a good deal of frost and snow, with rain and wind; a severe gale occurring on the 23rd.

The weather in March was variable, but not unseasonable; and in April was generally fine, excepting the prevalence of cold easterly winds during the last fortnight. These winds continued almost without intermission till the 4th of June, when the wind shifted to the west. Excepting occasional showers, however, there was but little rain before the 25th of June, when it fell heavily; and during June, though the temperature was variable, there were several warm, and a few hot days.

Much rain fell in the first week of July; but afterwards the weather was variable, with several fine days, and a good deal of rain, but not so heavy or continuous as to be injurious to the crops.

The first fortnight of August was windy and wet. Afterwards the weather improved; but the temperature still continued low for the season. The first week of September was fine; but there was rain on the 8th and 9th, and again on the 15th, 16th, and 18th. The rest of the month was fair. Upon the whole, the two months of August and September, excepting about a week at the beginning of the former, were favourable for gathering and securing the crops of corn throughout the country.

The wheat crop of 1844 was computed to be in bulk and yield the largest of all since the harvest of 1834; and the state of the markets during the

following year amply confirms this estimate. The quantity of wheat returned as sold in the inspected markets in England and Wales in the year following the first week of September, 1844, was no less than 6,664,000 quarters; and the average price of the harvest year was only 46*s.* 7*d.* per quarter.*

SECTION 6.—*Character of the Season of* 1844–45.—*Prices and estimated Produce of Wheat.*

The weather in October and November, 1844, was of the usual character; and sufficiently favourable for farming operations. But the whole of December was characterised by a low temperature. During the first three weeks there was severe frost; and the navigation of the Thames was impeded by ice. From the 30th of November to near the end of the year there was also a nearly constant succession of dry easterly winds.

In January the weather was mild for the season, with a good deal of rain, till near the end of the month. There was a return of frost, with slight falls of snow, from the 27th to the 31st.

During February there was more severe frost, and more snow, than had been experienced in the same month for some years before: the lowest point of temperature occurring on the 11th.

March brought no alleviation of this severity. The weather during the first three weeks of the month was marked by a lower temperature (the lowest occurring on the 13th), and, altogether, by

* The quantity of foreign and colonial wheat and flour entered for consumption in the United Kingdom between the 5th of August, 1844, and the same date in 1845, was only 476,190 quarters; and the lowest duty paid upon any considerable portion of this was 18*s.* per quarter.

greater inclemency, than had occurred since 1814.* The rest of the month was comparatively mild.

The four months extending from the end of November, 1844, to the last week of March, 1845, may therefore be described as a long and rather rigorous winter. The mildness of the weather in January, however, deprives it of the character of extreme severity.

The spring quarter, throughout the greater part of it, was unseasonably cold. The first three weeks of April were dry and very cold; and drought was much complained of. The last week of the month was warmer; yet less warm than is usual at this season. May was cold and gloomy, with a good deal of rain, and very little sun: hardly one fine bright day occurring throughout the month.

In June the weather was fair, and in every respect seasonable.

The first three days of July were rainy: the next three fine, bright, and hot. But the rest of the month was unsettled, and generally cold; with a good deal of rain, and not one day of full summer heat. This cold and wet weather continued with little variation through the month of August.

The low temperature caused the ripening process of the grain crops to be very slow; but it also rendered the prevalence of wet less injurious, as it prevented the sprouting which might otherwise have been apprehended.

The first fourteen days of September were dry and generally cold, with north-east winds; and the rest of the month variable; but with a preponderance of wet; and was cold for the season.

The season of 1844-5 is remarkable, and will long be memorable, as having been that in which an extraordinary disease first made itself generally

* In 1814 there was continuous frost, with occasional falls of snow, till the 21st of March.

manifest among the potatoes, not only in the United Kingdom, but over a great part of the Continent of Europe. When the extensive prevalence of this disease first attracted public attention it was attributed to the ungenial character of the weather which had prevailed from the planting to the gathering of the crop. But doubts were thrown upon this mode of accounting for the disease, when it was discovered to prevail equally in districts of the Continent of Europe, which had been exempt from unfavourable weather. And these doubts were strengthened when it became generally known that the very same description of disease had existed for some time before in the United States of America. The existence, and extensive prevalence, and the probable causes of the disease in that country, had been matter of public inquiry, and had formed the subject of an elaborate report from the Commission of Patents, in 1844; and, in that instance, neither the climate nor the weather (so different from those on this side of the Atlantic) could be brought to account for the phenomenon. And the renewed appearance, and still more extensive prevalence, of the disease in the country, in 1846, when, as I shall have occasion to show, the season was, in all essential particulars, very different from that of 1845, goes far towards putting an end to the hypothesis on which it has been attempted to account for this extraordinary visitation by reference to the weather. How it is to be accounted for, it is no part of my present plan to examine, or to attempt to explain. I have here only to mention the facts,—that, in August, 1845, public attention was first drawn to the existence of the disease; and that, as the autumn advanced, great and increasing alarm was excited by accounts from all parts of the kingdom, but particularly from Ireland, of the fearful extent to which it was spreading.

The alarm felt at the great, though still partial, failure of the supply of potatoes, was heightened by reports of a deficiency of the wheat crop. And the character of the season, cold from the beginning to its close, dry and harsh in the spring, and wet from the time of blooming to the period of the harvest, could not, in the nature of things, be otherwise than injurious. Nearly all accounts, accordingly, concurred in stating some deficiency as the result of the harvest.

Under the joint influence of the unfavourable weather, of the reports of failure of the potatoes, and of a deficiency of the wheat crop, the weekly average price of wheat rose from 45*s.* in March to 60*s.* 1*d.* in November, being an advance of nearly thirty-five per cent. But this advance was not maintained.

Experience has shown that the crop of 1844, large as the contemporary estimates of its produce were, exceeded the widest computation; and a considerable surplus from it went towards covering the deficiency of that of 1845.

The announcement, early in December, of the intention of the Government to assemble Parliament somewhat earlier than usual for the purpose of considering the Corn Laws with a view to their repeal, combined with the general impression that the stock of corn in the country, together with the foreign supply likely to be admitted, would prove more than sufficient, notwithstanding the partial failure of the potato crop, to supply the average rate of consumption till the next harvest, seems to have induced farmers to thresh out and send their corn freely to market; insomuch that, although no foreign wheat, or none worth mentioning, was entered for home consumption*, the price

* The total quantity of wheat and flour entered for consumption between the 5th of August, 1845, and the 5th of January following, was 187,348 quarters.

fell through the rest of the year; the average in the week ending 27th of December having got down to 55*s*. 4*d*. And, as we are about to see, this fall of price continued through the following six months.

The decline of the price of corn, which took place from November—when the movement for a repeal of the Corn Laws, which led to the act of the following session, was first made in the Cabinet by Sir Robert Peel—forward, through the greater part of the following year, has been used to support, against that minister, the charge of having exaggerated the prospect of scarcity, for the furtherance of a preconceived political purpose. But the charge of exaggeration, in cases like this, in which so much uncertainty necessarily exists, both as to present facts, and as to events contingent on the casualties of the seasons, is easily made. It is hardly possible, when a view must be taken of the future, that there should not prove, by the event, to have been an exaggeration on one side or the other. Under the peculiar circumstances of the disease of the potatoes, and the deficiency of the wheat crop, both in this country and on the Continent of Europe, in the autumn of 1845, I think the only safe course was to contemplate the more adverse contingencies. And if this be admitted, there cannot, I imagine, be a reasonable doubt, that Sir R. Peel was perfectly right in the view which he adopted of the course a government ought to take on such an occasion.

The produce of the wheat harvest of 1845 was undoubtedly deficient, as well in bulk on the ground, as in the ultimate yield, and in quality; and the same cause—the low temperature and wetness of the latter part of the season—appears to have injured, more or less, every other description of corn. The average yield per acre over that portion of England south of York was esti-

mated, at the time, upon tolerably safe data, to fall short of the average of the three previous years by about one-seventh. Over the whole of the United Kingdom it probably ranged nearly at the level of the harvest of 1840. The extent of the deficiency was not, however, fully apparent in the state of the markets during the following year. The harvests of 1842–3–4 having each, but especially the last, been unusually large, there would appear to have been, during the three corresponding harvest years, a gradual increase of the stocks on hand; and all attainable evidence favours the belief that at the harvest of 1845 there was a larger quantity of home-grown corn in store in this country than had been so held at the same period of the year, since the harvest of 1835.

It is also to be considered that, partly from the lateness of the harvest, and partly from the damp and defective condition of the grain, the crop of 1845 was not brought into consumption for three or four weeks after the usual period; and also that the harvest of 1846 occurred rather earlier than usual; so that the home supply of 1845 had not, in fact, to meet the demand of an entire year.

On the other hand, the rate of consumption of wheat in the harvest year 1845–6 was undoubtedly enhanced, as well by the very general prevalence of profitable employment among the labouring classes, as by the failure of the potato crop.

With due allowance for the disturbing causes here indicated, the produce of wheat may be estimated upon the same data as before. The total quantity of wheat returned as sold in the inspected markets in England and Wales, in the fifty-two weeks following the first week in September, 1845, was very nearly 5,700,000 quarters. The quantity of foreign and colonial wheat and flour entered for consumption between the 5th of August, 1845,

and the same date in 1846 was 2,732,000 quarters, or only about 250,000 quarters less than was entered in 1841–2; and the average price of the harvest year was 54*s*. 8*d*.

Section 7.—*Character of the Season of* 1845–46.—*Prices and estimated Produce of Wheat.*

The weather in October and November, 1845, was mild and seasonable. In December it became very wet, and continued so throughout the month; with much wind, mostly from south-west to north-west. This wet weather continued, with scarcely any cessation, during January and February; and was accompanied with a temperature unusually high for the season. In short, the winter extending from the commencement of December, 1845, to the close of February, 1846, was the mildest which had occurred in this country since that of 1821–2.* And the spring months of April and May were of corresponding mildness. A few days in the latter end of April, of cold easterly winds, formed the only exception to the general character of the season worthy of notice.

The extreme mildness of the winter of 1845–6 is not only remarkable as an extraordinary fact in meteorology, but also as having had an important influence in mitigating the effects of the partial failure of the potato crop, and of the deficiency of the wheat

* In both these winters there was no native ice, not, at least, in the southern division of the kingdom. And it was the total absence of a provision of this luxury for the coming spring and summer that led, in the early part of 1822, to the importation of two or three cargoes from Norway. Ice has since become an article of regular import into this country, not only from Norway, but now, in even larger quantity, from Boston in the United States, known as the Wenham Lake ice.

crop. But little consideration is needed to show how great a saving of potatoes and corn is caused by an open, as contrasted with a severe, winter. In the former, cattle, sheep, and pigs, may be kept out and subsisted on green food and turnips so much longer. It is also to be observed that in the winter of 1845–6, though potatoes were scarce and dear, turnips, and all other esculents, were abundant, and cheap. Indeed, it was with difficulty that the turnips could be fed off in the course of the spring; and it was said that, in several instances, farmers allowed their neighbours to send in sheep to assist, gratuitously, in feeding off the surplus stocks. The abundance of turnips, and of beetroot, and cabbages, and turnip-tops, also added to the supply of human food, in aid, and to the great saving, of the consumption of bread. It is just that these circumstances should be borne in mind in judging of the conduct of Sir Robert Peel with reference to the food question in the autumn of 1845. He has been charged with having, in November and December, exaggerated the extent of the scarcity. If, however, instead of a remarkably open winter, and a forward spring, the winter had been one of such severity as has sometimes been known, and, as an almost necessary consequence, the spring had been cold and backward, the period would have been one of dearth; and ministers, had they remained passive, would have been fairly blamed by their opponents for not having adopted measures of precaution against so obvious a contingency.

In the two last days of May, and the first three weeks of June, there prevailed the greatest degree and the longest continuance of hot weather that have occurred in the present century at so early a period of the summer.

The latter part of June and the whole of July were variable, and of a lower temperature; but with a full proportion of fair and seasonable weather.

There were some very heavy storms of thunder and lightning, hail and rain, in different parts of the country; but these were generally confined within narrow limits.

The wetness of the autumn of 1845, and of January, and a part of February, 1846, had very much interfered with the sowing of wheat; and, so far, rather impaired the prospect of a large crop. But the forwardness, and the genial character of the spring, and the generally favourable appearance of the plant, combined with the prospect of the admission at a low duty of all the corn then in bond, had the effect of depressing the markets as the season advanced. The Corn bill received the Royal Assent on the 26th of June; and immediately on the new duties coming into operation, the whole quantity of foreign and colonial wheat and flour then in bond, amounting to more than 2,000,000 quarters, was entered for home consumption. In the third week of June the weekly average price was 52*s.* 2*d.*, and in the week ending the 15th of August it had fallen to 45*s.* 1*d.*

On the 1st of August, 1846, London, and its immediate vicinity, were visited with the most violent and long-continued and destructive storm of hail and rain, of which there is any record. The weather in the remainder of the month was favourable to the ripening and securing of the crops of grain in the southern division of the kingdom. But during the first three weeks of August the weather in Yorkshire and to the northward of that county was wet and close, and there were, in consequence, complaints, in those districts, of the sprouting of the wheats.

Early in August the failure of the potato crop was again apprehended; and as the season advanced the worst apprehensions were more than realised. This circumstance was of itself calculated to enhance the value of wheat. At the same time

the results of the corn harvest of 1846 were variously reported.

For the last ten days of August, and through the greater part of September, the weather was generally fair, and admitted of the crops in the northern districts of the country being secured in good order.

As the autumn advanced the impression that the yield of the wheat harvest was, on the whole, deficient to a considerable extent, became very general. In some districts the produce, per acre, was estimated to be very large, in others it was said to be miserably deficient; and the common average, according to the best estimates, but little exceeded the yield per acre in 1841. The aggregate produce, in bulk, probably fell short of that of the harvest of 1845; but the grain being of a much better quality, it commanded a higher relative price, apart from measurement.

The comparative deficiency of the stock on hand, the prospect of a large extra demand, to supply the deficiency of the potato crop, and the improved quality of the grain, combined to raise the price, till, in the week ending the 7th of November, the weekly average reached 62*s.* 3*d.* But though the failure of the potato crop, to a very great extent, was, by that time, placed beyond doubt, this advance was not quite sustained; and the price declined during the next few weeks, and afterwards ranged at about 60*s.* down to the close of the year: when it was 61*s.* 6*d.*

The state of the markets for grain in the ensuing year leads to the conclusion that the actual deficiency of the supply of wheat in the autumn of 1846 was much greater than was generally supposed at the time. During the first four months following the first week in September, the quantities of home-grown wheat returned as sold, weekly, in the inspected markets in England and Wales, were greater than during any similar period before. Thence-

forward, however, they dwindled rapidly; and in the last three months of the harvest year were extremely small. The following comparison of the quantities sold, and the average prices, in each of the four periods, of thirteen weeks each, extending from the 29th of August, 1846, to the 28th of August, 1847, will show how irregularly the home supply was distributed over the whole period.

				Quantity returned as sold in the inspected markets.	Average Prices.	
				qrs.	s.	d.
1st quarter,	to	28th Nov. 1846.	-	1,891,561	56	9
2d	„	27th Feb. 1847.	-	1,618,773	67	10
3d	„	29th May, „	-	1,258,383	80	6
4th	„	28th Aug. „	-	594,479	79	5

The aggregate quantity thus sold was 5,363,000 quarters; and the quantity of foreign and colonial wheat and flour imported between the 5th of August, 1846, and the same period in 1847, was 2,458,000 quarters. The foreign supply of bread-stuffs, however, during this period (particularly in the shape of Indian corn, and the meal of that grain, and of barley and oats) was much greater than might be inferred from this statement. A more particular account will be found in the Appendix.

The average price of the harvest year 1846-7, computed from the weekly averages, was 71*s.* 2*d.*

The apprehended approach of scarcity in the autumn of 1846, from a cause [the potato failure] common to the United Kingdom and a great part of continental Europe, tended to direct public attention, somewhat more strongly than usual, to the result of the harvest in the neighbouring countries. It soon became apparent that in the central and southern parts of Europe the corn crops were generally deficient; and that they were especially so in France, Holland, and Belgium.* In these

* The deficiency was materially augmented in the centre, west, and south-west of France, in October 1846, by floods,

countries, also, the potato disease was prevalent, though less so than in the preceding year; and thus the demand for grain food was, as in our own case, increased concurrently with a reduced supply. The prices of corn consequently rose, in the continental markets, soon after the conclusion of the harvest, and ranged, during the autumn, higher than in this country.

SECTION 8.—*Character of the Season of* 1846–47.—*Prices and estimated Produce of Wheat.*

The weather during October, and nearly the whole of November, 1846, was favourable to farming operations. In the last few days of November, and during the whole of December, it was extremely cold: the winter setting in early, and with much severity.

In January, the temperature became rather higher; and, though there were occasional falls of snow, it did not lie, and the frost was neither severe nor continuous.

From the end of January to the middle of March the cold increased, attaining its greatest intensity in the first fortnight of March; and during this period some heavy falls of snow and severe frosts occurred.

The latter half of March, and the greater part of April, though cold, were fair and seasonable.

arising from heavy and continuous falls of rain in the upper districts of the country. The inundation seems to have followed, chiefly, the valley of the Loire. That river was said to have risen as much as twenty feet in one night; and the bridge at Orleans, as well as an extensive viaduct, then recently erected between Orleans and Vierzon, were swept away. The total loss sustained by these floods, principally in agricultural produce, was estimated at nearly 4,000,000*l.* sterling.

Down to the 26th of April there was not a single day of such warmth as is sometimes felt even in March; and during the same period there was little or no rain. Thenceforward, till about the middle of May, much rain fell; the temperature continuing low for the season.

In the third week of May, the weather became fair, and improved rapidly; and towards the end of the month the heat was greater than I remember it to have been in any previous year at the same period. The weather was less warm after the first two or three days of June, but continued dry till the 14th of that month. It then became variable; but, on the whole, not unseasonable; and July may be fairly described as a month of fine summer weather, with many bright, and some hot days.

With the exception of a few days of unsettled weather in the last week of July, and the first of the following month, and a diminished temperature, the weather continued to be generally favourable till the end of August; and the crops of corn were secured in good condition, in nearly every part of the southern division of Great Britain.

In September there was rather more wind than usual, and occasionally strong gales; but the weather was generally dry, and, altogether, was favourable to the harvest in the northern division of the island.

The great rise of prices at the commencement of the harvest year 1846–7, (as marked by the advance of 18*s.* per quarter between the weekly average of the 15th of August, and that of the 7th of November,) though caused chiefly by the estimated deficiency of the home supply in proportion to the probable demand, was undoubtedly accelerated by the state of the corn markets on the Continent, and by the indications of approaching scarcity afforded by the acts of the French, Dutch, and Belgian governments. Early in the autumn, the ports of

those countries were opened for the importation of all kinds of grain, free of duty. It also became known, about the same time, that the French government had given orders for large purchases of corn abroad. Hence their prices and ours rose nearly on a level.

The upward tendency was checked in France, in November, by a public statement, in a report by the Minister of the Interior, that there was no sufficient ground for the prevailing alarm, and the consequent high prices, and that large supplies by importation would shortly be forthcoming. In this country the progress of the advance was arrested partly by the effect of this announcement on the continental markets, and partly by the accounts received about the same time from the corn exporting countries, and particularly from the United States of America, of enormous supplies being available at the prices then current.

Before the close of the year, however, the deficiency of the wheat crop in the south of Europe, and particularly in the south of France, and, in a still greater degree, of rye, and the spring corn, generally, on the Continent, gave a fresh impulse to the rise of prices there. This renewed rise in the continental markets, combined with the alarming accounts from Ireland, and also from Scotland, of the necessity for large importations of grain and meal to avert impending famine, caused a further advance of the average price in this country; and in the week ending the 1st of April, 1847, it reached 77*s.*; when there was again a pause, and a slight recession during the four following weeks. But about the end of April, the smallness and diminishing amount of the supplies from our own farmers began to excite much attention; and the backwardness of the spring, together with accounts from France and Belgium of a further rise in their markets, such

as placed their prices above ours, and the receipt of numerous orders for purchases in this country for shipment to the Continent, combined, with fears of the exhaustion of the home supply, to produce considerable excitement in the corn trade: insomuch that, notwithstanding the extreme pressure on the money market at that time, the weekly average price of wheat rose rapidly till the last week in May; when it reached an average of 102*s.* 5*d.**

The more favourable weather of the latter half of May, and the arrival of large foreign supplies, caused a gradual fall of prices from the beginning of June to the middle of July, when the weekly average price of wheat had declined to 74*s.*

The averages rose, a few shillings, under the threatened change of weather at the end of July; but the importations continuing on a scale beyond precedent, and the weather and the growing crops resuming a better appearance, prices again declined.

About the middle of August, favourable accounts being received of the harvest in most parts of the kingdom, and on the Continent, the quantity of corn imported also continuing to be very great, and the reports concerning the potato crop agreeing as to a general and decided diminution of the disease, the fall of prices became more rapid; and on the 18th of September the average had got down to 49*s.* 6*d.*† It rose in the following week to 53*s.* 6*d.*, and has ranged nearly at that level thenceforward to the present time.

* During the height of the excitement a sale was made in the Uxbridge market at 124*s.* and, in Mark Lane, one at 115*s.* per quarter.

† The difference between the highest and the lowest weekly average price of the year was 52*s.* 11*d.*, and the fall took place in sixteen weeks: the average of the 29th of May having been 102*s.* 5*d.*, and that of the 18th of September, as above stated, 49*s.* 6*d.*

The most careful estimates of the wheat crops of 1847 lead to the inference that the yield per acre was somewhat greater than in the two previous years; and was rather over than under an average. In point of bulk and tallness of the straw, and consequent weight of the sheaves, in some considerable districts, it was very remarkable, and, perhaps, never surpassed. Hence the produce in yield of flour was likely to be overrated, for, as usual in such cases, the size of the ears was not equal to what it sometimes is, when the plant is thinner on the ground, and shorter.

The breadth of land sown, particularly with spring corn, under the influence of the high prices prevailing at that season, would appear to have been greater than in any previous year. In Ireland, and in those districts of England and Scotland in which the consequences of the potato failure of the two previous years had been most severely felt, corn was extensively substituted for potatoes.

The quality of the grain has been reported to be generally good, with the exception of that raised in some parts of the south of England, where blight was complained of a week or two before the harvest, and the grain, when cut, appeared thin in the ear, and prematurely ripe.

From the first week in September the weekly returns of the quantities sold in the inspected markets in England and Wales exhibited a gradual increase, as compared with the small supply of home-grown corn brought to market in June, July, and August. The average quantity sold, weekly, in the aggregate, as returned during those three months, was about 45,600 quarters, or considerably less than during any similar period since these returns have been made. In the first week of September the sales amounted to 55,427, and in the fourth, to 96,895 quarters; and the average of four con-

secutive weeks in October was upwards of 112,000 quarters weekly. In November the average did not exceed 90,000 quarters. Afterwards the importations fell off, and the quantity of home-grown wheat brought to market again increased.

It would appear, from the great reduction of the home supply during the last quarter of the harvest year, that the stocks of wheat in this country were much more nearly exhausted at the period of the last harvest than in any previous year of which we have a record sufficient to afford a comparison; and this inference is confirmed by the opinions most prevalent in the corn market.

It is obvious, however, if only from the experience of the year before, that the extent of the subsequent increase of the weekly sales of home-grown wheat cannot be held to afford any definite indication of the actual results of the last harvest. For though the crop of 1846 was undoubtedly deficient, the quantity of wheat sold in the inspected markets in the first three months after the harvest was much greater than in any similar period before; and, as has been shown, actually comprised more than one-third of all that was so sold during the harvest year.

On the other hand, it is to be observed that the quantities of imported wheat and flour introduced into the home market in the first three months after the harvest were very much larger in 1847 than in 1846*; the difference being sufficient, indeed, together with the range of prices, to afford support

* The quantity of foreign and colonial wheat and flour imported at eleven of the principal ports of Great Britain only, according to the weekly returns from the Custom House, during the thirteen weeks ending the 24th of November, 1847, was 1,709,400 quarters. The quantity of home-grown wheat returned as sold in the 290 inspected markets of England and Wales in the thirteen weeks ending the 27th of November was 1,243,700 quarters; and the aggregate average price for the quarter about 53*s.* 8*d.*

to the inference that the home supply has been, in the present year, held back, to some extent, in the expectation that when these large importations should cease, prices would assume a higher level.*

Dec. 6. 1847.

SECTION 9. — *On the Variation of the Supplies of Wheat from Ireland.*

There was a remarkable deficiency in the quantity of wheat imported into Great Britain from Ireland in 1839, and the three following years, as compared with the years immediately preceding and following these.

Of the precise causes of the deficiency we have no direct evidence. But if the annual official returns, as made up in the ordinary manner, be converted into returns for the harvest years, by adding the importations during the last quarter of each astronomical year to those of the three first quarters of the year following, it becomes apparent that the deficiency has relation to the Irish harvests of the four years from 1839 to 1842 inclusive.

The following were the quantities of wheat, apparently of the produce of each year's harvest, imported from Ireland into Great Britain during the ten years preceding the 5th of October, 1845, with the average prices of the harvest year (computed from the first week in August forward), in England and Wales: —

		qrs.	*s.*	*d.*			qrs.	*s.*	*d.*
1834–35	-	625,567	41	5	1840–41	-	192,885	63	6
1835–36	-	705,593	42	8	1841–42	-	216,204	63	4
1836–37	-	457,435	55	0	1842–43	-	310,344	49	4
1837–38	-	590,842	57	10	1843–44	-	467,800	53	9
1838–39	-	332,270	71	8	1844–45	-	729,812	46	7
1839–40	-	174,650	68	0					

* For further information, down to the close of the year, see the Appendix.

The average annual quantity of wheat of Irish growth added to the British supply in the first four years was, therefore, about 594,600 quarters.

In the second period of four years the annual average was reduced to 229,000 qrs.

If the two years, 1836–7 and 1837–8, immediately preceding this period of deficiency, be regarded separately, it will be observed that the supply from Ireland and the price in England varied nearly together; and if the comparison be extended to the two years, 1842–3 and 1843–4, immediately following that period, it will be seen that there is a similar correspondence: the amount of the supply, and the average price in the market to which it was brought, rising and falling together, with remarkable regularity.

The reduction of the supply, when contrasted with the concurrent high range of prices in England, during the four years intervening (1838–41), leads irresistibly to the conclusion that the wheat crops of those years were deficient in Ireland as well as in Great Britain; and thence tends to support the inference that the causes of the deficiency are referable to the character of the seasons; which would thus appear to have been similar in their nature, and to have operated with nearly equal effect in both countries.

It will also be observed, that the two years 1835–6 and 1844–5 agree in the coincidence of an unusually large supply from Ireland with an unusually low price in this country. Hence it would appear, that in those years, also, the general character of the Irish harvests was nearly the same as that of our own.

Were the common cause of fluctuation, thus apparently in operation simultaneously in both countries, to be found in a variation of the breadth of land sown with wheat, corresponding fluctuations of an opposite character would be observed (or at

least might be fairly expected) in the Irish supplies to this country of other descriptions of grain. But an examination of the official returns as to the only other descriptions of grain imported from Ireland during the ten years referred to, in any considerable quantity (oats and barley), affords no confirmation of any such surmise: the supplies of other grain having, in fact, exhibited variations similar to, though within a narrower range than, those already observed as to wheat.

Annual average.	Quantities imported from Ireland into Great Britain.	
	Oats.	Barley.
	Qrs.	Qrs.
In the two years 1837–8.	1,790,353	181,970
In the four years 1839–42	1,417,817	70,868
In the two years 1843–4.	1,535,933	100,551

It would therefore appear, upon the evidence afforded by these returns, that the wheat crops in Ireland were not only generally as deficient in the four years 1839–42 as those in this country, but that the deficiency was due to a similar cause: a succession of unfavourable seasons.

Section 10.—*On the probable future Course of the Prices of Wheat in the United Kingdom.*

The future course of prices is dependent on contingencies of such magnitude and uncertainty, that any one, however extensive his experience or means of information, would justly be open to the charge of presumption if he were to offer a confident opinion.

Too great allowance can hardly be made for the possible influence of the seasons. The effect of a single season like that of 1816, the inclemency of which extended over nearly the whole of Europe, and rendered the crops of corn of all kinds greatly deficient, and raised the price of wheat both in this country and in the principal consuming countries of the Continent above 100*s*. per quarter, is scarcely susceptible of previous estimate. So also the singular and afflicting visitation of the potato disease (which is obviously a casualty connected with the season, however it may be accounted for) has had the effect of raising the price of wheat nearly as high as it was in 1816–17. The occurrence of such casualties must necessarily disturb and defeat all attempts at reasoning, with much probability of proving to be right, on the course of future prices. If the potato disease should continue, although in a mitigated form, it will exercise more or less influence on the prices of corn by the extra consumption thus thrown on wheat and other breadstuffs, and thus counteract, possibly for some time, the tendency to cheapness which may be anticipated from more propitious seasons, combined with the improved and extended cultivation to which recent high prices will have offered an inducement.

If, however, barring the occurrence of such extraordinary visitations as occurred at the close of the last and in the early part of the present century, and in 1816, and more recently in 1846–7, I were called upon to hazard a conjecture as to the probable range of the prices of wheat, it would be to this effect.

Assuming the weekly averages to be collected as at present, I should expect that the whole fluctuation would range between 60*s*. and 30*s*. per quarter.

My reasons for assuming this as the probable range of fluctuation are: —

1. As regards the maximum.

This is derived from a careful view of the prices of corn, and the circumstances connected with the corn trade, in the interval between 1818 and the close of 1846. Taking into consideration the peculiar operation of the corn laws, which made an advance to 80*s*. till 1828, and to 73*s*. till 1846, the condition of our receiving a foreign supply, in the event of a decided deficiency of the home growth, it appears to be a reasonable conjecture that, but for that peculiar operation, and supposing that the ports had been open for importation at the duty of 1*s*., there was no one occasion on which the price would have risen above 60*s*.

2. As regards the minimum.

In the interval between 1831 and 1836 the crops of corn on the continent of Europe were (with the exception of a deficiency of the rye crops in Russia in 1835) generally abundant, as they also were in this country; and if, under those circumstances, our ports had been open for importation at 1*s*. duty, I think that the price, instead of 36*s*. at which it stood in the last week of December, 1835, and the first week of January, 1836, might have fallen to 30*s*. Lower than that it would hardly have gone. The country being then in a flourishing state, the population fully employed, manufacturing profits unusually large, and the rate of interest low, the probability is that the fall would have been checked by speculative investments; by which I mean that capital from sources extraneous to the corn exchange would have been embarked in it; distinguishing such investments from ordinary speculative purchases on credit, which could only be held till the limits of credit were reached, when sales, made of necessity, would entail a fall greater

than the rise which had been caused by the purchases.

The medium or pivot price would thus be 45*s*. At any thing materially below this rate there would be a tendency to accumulate stocks in the hands of farmers, and importers, and speculators; and this accumulation would have a strong tendency to check any considerable advance from deficiency of crops, unless of an extraordinary character.

Taking the question of conjectural price in another point of view, it appears to me that there are the strongest grounds for believing that an average of about 45*s*. may be considered as a rate which will be consistent with keeping up and gradually extending cultivation in the United Kingdom, and at the same time admitting of such an importation of foreign corn as, with our own growth, will fully meet the wants of an increasing population.

There is, however, one other consideration which must not be lost sight of in any view to future prices; and that is the value of gold. I believe that the circumstances operating upon the supply of gold, relatively to the demand for it in the markets of the world, have been for many years past such as to preserve it at a nearly constant value. At least there have been no indications, taking the ordinary tests, of any material variation. But there are in prospect causes which may produce a considerable alteration. The most important of these is the extraordinary production of gold in Russia. In the Appendix will be found the latest account that I have been able to obtain of the quantity produced in that empire.

If the produce should continue only to be annually what it has been in the last year, and still more if it should increase in any thing like its recent rate of progression, while other sources of supply may be assumed to be not likely to fall off, there can hardly fail to be, ere long, a sensible change in the

value of money, properly so termed—though not in the stock-exchange sense of the word.

If the quantity of gold relatively to its uses should increase so as sensibly to affect its value, while the production of silver should be comparatively stationary, the diminished value of gold will be perceived not only in an increased price of corn, and of labour, and of commodities generally, but in an increased price of silver, and our par of exchange will be reduced with foreign countries whose standard is silver. At the same time it is not unreasonable to contemplate the probability, on general grounds, of an increase of the production of silver from the American mines, which might keep pace with the increased produce of gold in Russia. In this case there might be no very perceptible difference in the relative value of the two metals, and our par of exchange with the states of the Continent of Europe would not be sensibly varied.

These are considerations, however, which it is not within the scope of my present purpose to pursue.

PART II.

ON THE PRICES OF PRODUCE OTHER THAN CORN.

SINCE the previous volumes of this work were written, much additional attention has been given by mercantile men to its subject; and the result is seen in a diminished tendency to refer general fluctuations of the prices of produce to changes in the amount of the circulation, or in the rate of interest. The large class of circumstances affecting prices, apart from the state of the circulating medium, and arising from variations of the relation of supply to demand, are now commonly and justly regarded as of primary importance. But the errors which it has been the principal purpose of this work to expose, are still entertained by a large part of the mercantile community, as portions of a once generally prevalent theory of the currency; and have, therefore, still sufficient importance to warrant a careful consideration of them in a history of prices during the eight years extending from the close of 1839 to that of 1847.

It need scarcely be remarked that the period referred to is one of considerable interest. Besides the abolition of the law limiting the importation of foreign corn, which belongs to the preceding part, and the repeal or reduction of the duties levied on the importation of most articles of foreign produce entering largely either into the food of the people or the materials of our principal manufactures, changes have taken place in the monetary and commercial affairs of the country, of a character perhaps more important in reference to the investigation of the laws governing the relation of the currency to prices, than are em-

braced in any similar period since 1819; previous to which period the connection of the currency with prices was complicated by reference to the supposed influence of the war, and the Bank restriction. How these changes bear upon the subject will become apparent as I proceed.

SECTION 1.—*On the concurrent Variations of Prices, the Circulation, and the Rate of Interest, from the Close of* 1839 *to the Autumn of* 1844.

Notwithstanding the extreme depression which had marked the closing months of 1839, the year 1840 opened with some slight symptoms of returning prosperity.

On the 10th of January the Bank of England reduced its rate of discount from 6 to 5 per cent.

This expansion of the currency, as it was called, gave a temporary animation to the markets for manufactures and other produce, under the influence of the common opinion of the connection of the money market with the prices of commodities. But it turned out, as usual, that there was no ground for that opinion; and as the spring advanced the aspect of affairs was materially altered.

The high prices of food, of nearly every description in ordinary use, but particularly of bread, meat, sugar, and tea, already limited very considerably the demand for manufactured goods in the home market; and as the year advanced, the additional exports to the countries whence we had recently drawn supplies of grain were found quite insufficient to fill up the vacuum thus created.

Early in the summer the prospect of hostilities with the United States, and, somewhat later, the threatening aspect of our relations with France, tended strongly to increase the prevailing dis-

position of mercantile men to contract their engagements. This disposition was probably further increased by the circumstance that on the 15th of October the Bank of England, not finding the reflux of bullion to be so great as had been expected, reduced the date of bills admissible for discount from ninety-five to sixty-five days. And a review of the year at its close exhibits, on the whole, throughout its course, a decided increase of the depression observed during the two previous years.

With the exception of the speculation in tea, noticed in the last volume, which began in 1839, and may be said to have reached its climax about the middle of January, 1840, and an enormous increase in the price of sugar available for consumption in this country, resulting from the failure of the supply from the West Indies, the markets for produce were dull, and prices, generally, declining, under a diminished demand, during the whole year.

The circulation of the Bank of England was lower in 1840 than it had been for some years before. The amount scarcely exceeded 18,000,000*l.* even for a single week after the payment of the dividends in January and July; and the general average of the year was not more than 16,800,000*l.*, or about half a million less than that of 1839, and fully two millions less than that of 1838.

If we compare the prices of the principal articles of produce other than corn in 1840, with the prices of 1838, we find a considerable diversity of movement; but no part of it is explicable by reference to any supposed influence of the currency. Some articles of importance, as hemp, tea, coffee, sugar, and rum, had risen in price, and others, as cotton and indigo, had fallen; while timber, tallow, raw silk, and wool, were nearly the same as in 1838. To explain these changes by reference to corresponding changes in the amount of the circulating medium would be impossible, for ac-

cording to the Currency theory, seeing that the circulation had been reduced, prices should have fallen, while, if there be a preponderance, it is decidedly in favour of higher prices. But a reference to each article in the relation of supply and demand will account for them at once.

1841.—In the first months of 1841, as in the preceding year, there was a somewhat general feeling of hope prevalent that a revival of trade was about to take place. The raw materials of our manufactures, generally, were observed to be low in price; the manufacturers on the continent were known to be even more depressed, and more crippled in their resources, therefore less capable of meeting efficiently any revival of the usual demand in markets open to both, than our own; and the demand for manufactured produce, both at home and abroad, had been so long below an average level, that its increase, at no distant period, was deemed almost certain. Commercial credit had everywhere been brought within narrow limits; and there seemed to be no longer any sufficient ground for the prevailing want of confidence in the results of commercial transactions conducted with ordinary prudence.

On the 3rd of January, 1841, the Bank of England withdrew the restriction imposed in October, 1840, upon bills admissible for discount, and restored the term to ninety-five days.

The quarterly accounts of the Bank, made up to the end of January, exhibited a remarkable coincidence with those of the previous year at the same period; but they were in so far improved that, in the interval, the debt to the bankers of Paris had been liquidated.

The stock of corn in the country at this period was considered to be much larger than it had been in January, 1840.

The receipt, in April, of news of Captain Elliott's preliminary arrangement with the Chinese autho-

rities at Canton, promising a speedy and satisfactory conclusion of hostilities, with the consequent fall in the price of tea; and a fall, nearly simultaneous, of some 20 per cent in the prices of sugar and coffee; together with the pacific tone of the inaugural address of General Harrison, and its repetition, soon afterwards, by Mr. Tyler, were all circumstances calculated to encourage hopes of the approach of an improved state of things.

But as the summer advanced it became evident that the continued high price of corn and cattle, together with the general scarcity of employment for the labouring population, precluded any material improvement for the present; and the reports from the manufacturing districts grew gradually more gloomy than ever. Towards the close of the summer, it was ascertained that the consumption of raw materials in our principal manufactures was proceeding at a rate considerably lower even than that of the previous year.

During the latter half of 1841 the general depression rather increased than diminished; and at its close, though the pressure upon commerce had not then reached its maximum, the distress experienced by almost every class of producers, and more particularly by the operatives in the manufacturing districts, was probably greater than at any other period, as being yet wholly unrelieved by any definite prospect of improvement.

The circulation of the Bank of England was, on an average, rather higher in 1841 than in 1840; being about 17,000,000*l.*

The Bank rate of interest, for discounts and advances, was kept, throughout the year, at 5 per cent; and the market rate for the best bills ranged from 4¼ upwards to that point.

The markets for produce presented, all through the year, a dull uniformity of appearance: want of confidence in the future, even for a few months, preventing all speculation, and prices, generally,

tending downwards, under the influence of a still further reduced demand for nearly every article of common use.

1842.—The most remarkable circumstance to be observed in the first months of 1842 was a strong tendency to a further reduction of the rate of interest. In January the brokers' rate of discount, for unexceptionable bills, was about 4½ per cent; and in March it had fallen tc 3½. The Bank of England, by the usual notice in February, offered advances at 4 per cent; and early in April this rate was extended to discounts.

During the first months of the year several important branches of our foreign trade were held in suspense by the uncertainty attending the fate of the tariff proposed by Sir R. Peel at the opening of the session.

Towards the close of the spring some signs of returning prosperity became distinctly visible. It was evident that commercial operations were again being extended—slowly, and for some time with but little effect on the apparent condition of the community—but the movement was observable in several directions; and especially in a gradually increasing demand for capital. And when, as the summer advanced, it became generally known that the harvest was likely to prove better than any that had been gathered in this country for several years, the improvement was perceptibly though slightly accelerated.

As the result of the harvest became more certain corn fell considerably in price; and large orders began to come in to the manufacturing districts.

The supply of floating capital became at this unusually large. For a week or two in August the best bills were readily discounted at 2¼ per cent. And there was a general feeling of confidence in an approaching termination of the period of general depression.

This confidence was checked and diminished for a time by the disturbances in the manufacturing districts, which, beginning in the midland counties in June, had spread, before the first week in August, to Lancashire, Yorkshire, and the west of Scotland. But these were not of long continuance, and were suppressed with little if any violence. And when tranquillity was restored in the disturbed districts, the work-people,—their means being entirely exhausted by want of employment, and the long previous high prices of food, and other necessaries,—readily met the renewed offers of employment which the manufacturers, finding their stocks materially reduced by the increasing demand and the long cessation from work, were enabled to offer.

These circumstances, if taken in combination with the assurance of abundant grain crops, the news of the Chinese Treaty, the settlement of the corn laws and the tariff, and a great fall in the prices of cattle, may be regarded as having opened, in the last quarter of 1842, the prospect of revived prosperity which was realised in the spring of the following year.

Excepting a few weeks at the end of 1842 the, markets for produce other than corn may be said to have retained, during the whole of the year, the quiet and drooping character observed in those of the previous year. The only striking exception was seen in the article of indigo, the price of which, in consequence of reports from India of a deficient crop, rose considerably during the autumn..

The market rate of discount for unexceptionable bills fell, steadily, with the exception of the temporary decline in August, already mentioned, from 4½ per cent in January, to about 2½ per cent in December; and during the same period the interest charged upon the periodical advances of the Bank was reduced from 5 to 3½ per cent.

The note circulation of the Bank of England, for the year, averaged about 19,000,000*l*., or fully

two millions higher than in the previous year. But, what is, perhaps, more important with reference to the present subject, it was increased to a greater extent, and more rapidly, during a few months of this year, than in any similar period before. The average circulation, taken upon a period of four weeks in January, was, in round numbers, about 16,000,000*l.*: in November it had attained an average level scarcely short of 20,000,000*l.*

It is particularly remarkable, in reference to so sudden and large an increase in the amount of Bank of England notes in circulation, that a comparison of the prices of all the more important articles of produce in January, with the prices in November, shows only two, worthy of notice, which had risen in price in the interval. Excepting indigo and cochineal (the latter an article of comparatively small value), the prices of produce, home and foreign, were lower, and in most cases considerably so, in November, 1842, when the circulation had for four or five months averaged 20,000,000*l.*, than in the preceding January, when it was, and for some months had been, scarcely over 16,000,000*l.* And the exceptions, though too trifling, under any circumstances, to afford material support to the currency theory, are at once explained by the anticipation, in both cases realised, of a diminished supply, concurrently with an increased demand, in the following year.

1843. — The hopes of renewed prosperity commonly indulged during the last months of 1842 having, as is usual in such cases, been pitched rather too high, were followed by some degree of disappointment — not so much at any reversal of, or even check to, the progress of the improvement, as with its slow advance, as experienced in the first months of 1843. The prices of food, and the

current rates of discount, were lower, and the foreign exchanges were higher, than they had been for several years; and there was no ground for reasonable doubt of the continuance of these favourable circumstances; but as the demand upon the manufacturing districts for the home market did not meet the expectations entertained at the close of the previous year, there was, in January and February, a very general disposition to despond; and the prices of manufactured goods, which had in most cases slightly risen, again declined.

In March, however, matters assumed a better aspect, particularly in the manufacturing towns of Lancashire and Cheshire. Thenceforward the improvement was steady and constant; and though still slow, was sufficiently perceptible to inspire very general confidence in its continuance. In April it was agreed that the Manchester trade was in a better condition than it had been in for some years before. It was observed, too, that good bills, of the scarcity of which brokers had hitherto complained, now became much more numerous. About the opening of the summer quarter, money, which at the beginning of the year had been but little in demand for commercial purposes at 2 per cent, was taken up rather freely; and a slight advance was even made in the current rate of discount. Early in May the revival of business had extended from the cotton to the woollen trade; and before the end of the summer the hardware manufactories and potteries of Warwickshire and Staffordshire were again in motion, and sharing the general increase of employment.

And here it is worthy of observation, that as commercial confidence rose, and the number and extent of the daily transactions involving the payment of money increased, the amount of Bank of England notes in circulation was not increased, but diminished. In the week ending the 4th of February

the amount was 21,344,000*l.*; and in the corresponding week in August, only 20,247,000*l.* Similarly, in the fourth week after the dividend day in April it was 20,294,000*l.*; and in the corresponding week at the end of October, only 19,563,000*l.*

In July 1842 the decline of prices, generally, as caused by the absence of a demand equal to the supply, or any immediate prospect of it, may be said to have reached nearly its lowest point. It has been observed [*ante*, p. 49.] that at the same period a large increase was taking place in the amount of bank notes in circulation. This increase continued with little variation till the complete restoration of confidence, in the spring of 1843; and for the year ending July 1843, the amount of Bank of England notes in circulation ranged at an average level between three and four millions above the average of the three years extending from July 1839 to July 1842. During nearly the whole of the three years last mentioned, the current rate of discount on unexceptionable bills varied from 4½ to 6 per cent*; while, in the year ending July, 1843, it scarcely exceeded 2 per cent.

An entire year of increased circulation, increased so rapidly, and to such an extent, following three years during which it had been so much reduced, and accompanied by so great a fall in the current rate of interest, might, if either the amount of the circulation, or the rate of interest, or both, exercised on prices any such influence as is often ascribed to them, be reasonably expected to have exhibited some signs of this influence in July 1843. But no such signs are apparent.

It has already been stated that the general tendency of prices down to near the close of 1842 was

* The current rate of discount for unexceptionable bills did not fall so low as four per cent till about the end of February, 1842.

a declining one. And if the price-currents of July 1843 be compared with those of the same period in 1842, it will be observed that, with few exceptions, and those of little importance, prices were even lower in July 1843 than they had been a year before.

From the summer of 1843, forward, the general aspect of commercial affairs was one of decided prosperity.

And now, before proceeding further, it may be useful to revert to the most prominent of the apparent causes of the change observed to have taken place at this period, as well on account of the interest attaching to all such changes in this country, as in relation to the bearing this change in particular may be fairly supposed to have had upon the course of prices, and the state of the circulating medium, in succeeding years.

The long duration of the season of depression and want of confidence which set in in 1839 had, in 1842, prepared all parties to expect a change for the better immediately on the occurrence of favourable circumstances. And in the year last mentioned events concurred, in a manner somewhat remarkable, first to encourage, and afterwards to aid in realising, the hopes which were thus indulged.

The most important of these events, as affecting the range of prices, not only of food, but of most articles of general consumption, was, undoubtedly, the abundant harvest of 1842, which was anticipated early in the summer, and got in about a fortnight earlier than usual. The home supply of corn was also aided in its effect upon prices, as has been stated in the previous part, by a large foreign supply.

Nearly simultaneously, and producing effects of a similar character, came the general fall in the prices of cattle. This was widely attributed at the

time to apprehensions, entertained in the home market, of the probable effect of the removal of the prohibition of, and the levying of a moderate duty on, the importation of foreign cattle, by the Tariff of 1842. Fears of this kind no doubt existed, and must have had some effect; but the true cause of the great reduction in the prices of cattle in 1842 was of a much more substantial description—there was a very considerable increase of the home supply. In that year, the disease which had prevailed among cattle in this country, during the three or four previous years, gradually and completely ceased. In September 1843 the stock of sheep in Great Britain was stated, and generally believed, to be unusually large; and that of horned cattle and pigs to exceed, materially, the average of past years; and all were declared, in the agricultural reports of the time, to be, with few exceptions, in remarkably good condition.

Nor were bread and meat the only articles of food of which this year brought renewed abundance: the supplies of tea, coffee, and sugar were also very much increased; and the prices reduced in proportion.

And when it is added that the supplies of nearly all the more important of the raw materials of our principal manufactures, as cotton, flax, hemp, timber, tallow, and iron, were larger in 1842, and their prices lower, than they had been for several years immediately preceding, and it is remembered that the satisfactory settlement of the Chinese war opened to us, in the last quarter of 1842, the double prospect of an addition to the revenue*, and of new and extensive markets for the sale of our staple products, the rapid revival of the home trade during the eight or nine months following will appear anything but inexplicable.

* By the 21,000,000 of dollars stipulated to be paid by the Chinese within the three years following August 1842.

The equally rapid reduction of the rate of interest from 4½ per cent in the spring of 1842, to barely 2 per cent in the spring and summer of 1843, appears to be sufficiently explained by the accumulation of surplus capital necessarily accompanying the scarcity of profitable employment for it in previous years, by the release of hoards, and by the revival of confidence in commercial prospects, as the return of comparative prosperity became evident.

The average amount of Bank of England notes in circulation in 1843 was about 19,500,000*l.*; the highest (monthly) average occurring in January, when it was 21,100,000*l.*, and the lowest in June, when it was 18,400,000*l.* The average amount of Bank notes in circulation in the United Kingdom, for the year, was about 35,700,000*l.* (or about 1,000,000*l.* higher than in 1842); and its highest and lowest points also occurred, respectively, in January and June; being 36,900,000*l.* in the former, and 33,400,000*l.* in the latter month.

1844.—Excepting the dulness usually attending the close of the year, the general increase of profitable employment for labour and capital, the increase of the revenue, and the improvement of the condition of the people, which marked the summer and autumn of the year 1843, were continued without abatement thenceforward, and during the whole of the following year.

In the first months of 1844 the prices of the raw materials of our chief manufactures were in most instances lower, and in the rest quite as low, as they had been at the same season for many years before. There was a brisk and increasing demand for manufactured produce, at home and abroad; and the prevalence of full employment in every branch of industry, with moderate prices for all the principal articles of food, increased very considerably

the demand for consumable commodities of every description. Abroad, the trade opened with the four new Chinese ports, the renewal of commercial intercourse with the United States upon a sounder basis of credit, and an increase of British exports to Brazil, in view of the expiration of our commercial treaty with that country in November, together with the improved state of our commerce with the continental countries of Europe, (resulting from their having experienced a renewal of internal prosperity in many respects similar to, and nearly simultaneous with, our own,) produced a rapid and steady growth of every branch of the export trade.

The only movement observable in the markets for produce during the earlier months of the year was a tendency to advance in the prices of those articles the consumption of which had been materially augmented in the latter months of 1843. The renewed activity of our manufacturers, and the consequent increase of the amount of capital currently devoted to the payment of wages, and thence conveyed through the hands of the retail dealers in payment for increased supplies of food, clothing, household furniture, &c., the demand for which had been reduced much below the ordinary level during the previous years of depression, may be distinguished as the most general of the causes of this movement. The consequent rise of prices in this direction, however, was but slight, and was anything but universal.

It was in the markets for colonial produce, where, in the first months of 1844, deficiency of supply, actual or prospective, combined, in several prominent instances, with the increasing demand, to cause an advance, that the upward tendency of prices was most remarkable, and attracted most attention.

The brokers' circulars of the period contained, as of course, the usual references to the increased

amount of the circulation; but the accompanying statements of the altered relation of supply to demand afforded, in almost every instance, a much more ready and simple, and undoubtedly a much more correct explanation of the phenomena adverted to.

With a single exception, that of the China trade, there was no appearance of speculation in the markets for produce in 1844. Nor was the exception referred to palpable at the time, otherwise than as a disposition to rely somewhat confidently upon an immediate extension of the China trade greater than, to the few persons in this country well informed as to the probabilities of the subject, seemed likely. So little to the purpose, however, was really known in the commercial world, with any degree of certainty, that those who embarked at once and largely in the export trade to the new ports, could scarcely have been said to hope too much, until the experience and better information of the two following years proved that they had done so. This exception should therefore, perhaps, be referred to rather as an illustration of the prevailing soundness and legitimacy of the commercial transactions of the period, than as indicating anything of a contrary character.

In the condition of the people, notwithstanding a degree of improvement in the mass which made itself palpable through every medium of observation and inquiry available to the public, there was still, even at the close of 1844, a melancholy and painful exception presented by the state of the labourers in the agricultural districts. This was of course attributed to the abatement of protective duties on agricultural produce in 1842; and more particularly to the low range of the prices of corn during the two following years. But it may be much more clearly traced, in the first instance, to

the accumulating results of the interruption of the customary migration from the agricultural to the manufacturing districts, during the long and severe depression of the latter; and secondly, though in a much less degree, to the disheartening effect upon the agricultural mind, of the prophecies of ruin uttered by the advocates of protection, confirmed, as to persons of limited observation these apparently had been, by the fall in the prices of both corn and cattle immediately after the session of 1842.

It is now abundantly obvious, as well from the Annual Reports of the Poor Law Commissioners, as from other and not less trustworthy sources of information, that while the manufacturing districts were being again [in 1843–44] brought into a busy and prosperous condition, the purely agricultural parts of the country were still burdened with the population raised to supply the usual stream of migration to the Towns, and not drawn off during the three or four previous years.

The low prices of agricultural produce were, as has been shown, caused entirely by its comparative abundance in the home market. And as neither the system nor the extent of cultivation were materially altered, and the improved state of trade had certainly enlarged the general demand for food, it is clear that if employment was more scarce than usual for farm labourers, its scarcity must have arisen from an increase in their numbers; and that if their wages were insufficient to procure the ordinary means of subsistence, the prices of food being lower, there must have been a reduction in the rate of wages. That their numbers had increased in every agricultural locality, there are good reasons for believing; and that the low prices of produce may have induced many farmers, pressed by high money rents, to pay to those they selected from the crowd competing for employment lower wages than usual, is more

than probable. But of the assertion, common at the time, that the distress prevalent in the agricultural districts in 1844 was caused by the reduced prices of corn and cattle, there is really no evidence whatever.

The complaints of want of employment for agricultural labourers would probably have been even louder and more frequent, as they would undoubtedly have been longer continued, than they were, had not a new demand for field labour gradually arisen during the summer and autumn of 1844, from the construction of new railways, consequent upon the speculations of that year. This additional demand does not seem to have had much effect upon the purely agricultural districts, whence, chiefly, the complaints were heard. until the beginning of 1845; but after that period these districts appear to have shared completely the renewed activity previously displayed elsewhere.

With some exceptions, already referred to, and of minor importance in a general review of the principal markets for produce, prices were in most instances even lower at the end of the first six or eight months of 1844, than at its commencement: the supply of the more important articles of consumption being found to be very generally beyond the demand; although the latter had materially increased.

In the last three or four months of the year a tendency to higher prices was observable in several directions; but was, in each, readily traceable either to a rapid consumption having much reduced the stocks on hand, or to the prospect of a diminished supply in the year ensuing. In short, the relation of supply and demand, actual or anticipated, affords, at this as at former periods, an ample explanation of all changes in the market prices.

Of the supposed influence of an expanded currency in raising prices, there was at this time cer-

tainly no trace whatever. On the contrary, it would be difficult to conceive an array of facts better calculated to disprove the existence of any such influence, than that presented by a statement of the prices of produce, of the amount of the Bank note circulation, and of the rate of interest, concurrently, either in 1844 in particular, or during the five years I have now passed in review; or even during any one or two of these years, in the course of which any material change took place, either in the circulation or the rate of interest, or in the general level of prices. Indeed, to any one regarding the facts by themselves, and altogether independently of any preconceived theory—and not indisposed to deduce a general conclusion of so much importance from a range of observation so limited as that presented by a period of five years—the facts would rather suggest the converse of the currency theory, exhibiting, as they almost invariably do, prices rising coincidently with the reduction of the circulation, and as regularly falling when its amount is increased.

By way of placing in the clearest light the results of a comparison of the prices and the circulation of the period referred to, and more particularly of the earlier and the later parts of it, it may be useful to present somewhat more in detail the condition of each in 1841 and in 1844.

The average amount of Bank of England notes in circulation in 1841 was about 17,000,000*l.*; and the average amount of the bank note circulation of the United Kingdom in the same year was probably about 35,800,000*l.** In 1844 these average amounts were increased respectively to rather more than 21,000,000*l.* in the one case, and 38,800,000*l.* in the other.

* This is the average of the last six months of the year; the returns not extending to an earlier period. See Appendix.

The Bank rate of interest in 1841 was 5 per cent; and in 1844 it varied from 4 down to 2½ per cent.

The market rate of interest, on discount of unexceptionable bills, ranged in 1841 from 5 to 4½ per cent, and in 1844 from 1¾ to 2½ per cent.

The following were the prices of the principal articles of produce, other than corn, in July and November in each year.

	1841.		1844.	
Prices in	July.	November.	July.	November.
Ashes, Canadian pearl - *cwt.*	28*s.* @ 29*s.* 6*d.*	32*s.* 6*d.* @ 33*s.*	27*s.* @ 30*s.*	26*s.* @ 26*s.* 6*d.*
Coffee, St. Domingo, in bond *cwt.*	42*s.* 6*d.* @ 45*s.*	40*s.* @ 40*s.* 6*d.*	31*s.* @ 34*s.*	26*s.* @ 34*s.*
— B. P. - - *cwt.*	62*s.* @ 128*s.*	62*s.* @ 147*s.*	34*s.* @ 156*s.*	18*s.* @ 132*s.*
Cochineal - - - - *lb.*	3*s.* 10*d.* @ 6*s.* 3*d.*	3*s.* 9*d.* @ 6*s.* 3*d.*	4*s.* 4*d* @ 6*s.* 3*d.*	4*s.* 1*d.* @ 5*s.* 9*d.*
Copper, British, in cakes - *ton*	98*l.*	98*l.* @ 99*l.*	84*l.* 10*s.* @ 85*l.*	84*l.*
Cotton wool, bowed Georgia - *lb.*	6¼*d.* @ 7¾*d.*	5*d.* @ 6½*d.*	5*d.* @ 6*d.*	3½*d.* @ 5¼*d.*
— East India - *lb.*	4⅛*d.* @ 5⅜*d.*	3⅞*d.* @ 5⅛*d.*	3*d.* @ 4⅛*d.*	2⅛*d.* @ 4⅛*d.*
Hemp, St. Petersburg, clean *ton*	38*l.* 10*s.* @ 39*l.*	36*l.*	33*l.*	27*l.*
Lead, British, in pigs - - *ton*	20*l.* 5*s.*	20*l.* 5*s.*	17*l.*	16*l.* 10*s.*
Indigo East India - - - *lb.*	2*s.* @ 8*s.* 6*d.*	1*s.* 6*d.* @ 8*s.*	2*s.* 2*d.* @ 6*s.*	2*s.* 4*d.* @ 5*s.* 10*d.*
Iron, British, bars - - *ton*	7*l.* @ 7*l.* 5*s.*	6*l.* 15*s.*	6*l.* @ 6*l.* 5*s.*	5*l.* 15*s.* @ 6*l.*
Iron, Swedish, in bond - *ton*	14*l.* 5*s.* @ 14*l.* 10*s.*	11*l.* 15*s.* @ 12*l.* 5*s.*	9*l.* 5*s.* @ 9*l.* 10*s.*	9*l.* 10*s.* @ 9*l.* 15*s.*
Oil, Southern fishery - - *tun*	26*l.* @ 29*l.*	32*l.* @ 36*l.* 5*s.*	31*l.* 10*s.* @ 32*l.*	27*l.* 10*s.* @ 33*l.*
Butter Waterford - - *cwt.*	4*l.* 10*s.* @ 4*l.* 16*s.*	4*l.* 12*s.* @ 4*l.* 15*s.*	2*l.* 16*s.* @ 83*l.* 10*s.*	3*l.* 18*s.* @ 4*l.* 6*s.*
Beef, prime mess - - *tierce*	6*l.* 12*s.* 6*d.*	6*l.* 2*s.* 6*d.*	5*l.*	4*l.* 15*s.*
Saltpetre, rough, in bond - *cwt.*	27*s.* @ 29*s.* 6*d.*	26*s.* @ 28*s.* 6*d.*	23*s.* 6*d.* @ 27*s.* 6*d.*	23*s.* @ 27*s.*
Silk, East India, raw - - *lb.*	10*s.* 6*d.* @ 19*s.*	9*s* @ 21*s.*	9*s.* 6*d.* @ 20*s.*	8*s* 6*d.* @ 20*s.*
— Italian, raw - - - *lb.*	18*s.* @ 33*s.*	13*s.* 6*d.* @ 26*s.*	15*s.* @ 28*s.*	15*s.* @ 26*s.*
Cinnamon, Ceylon, 1st quality *lb.*	6*s.* 4*d.* @ 7*s.* 9*d.*	6*s.* 4*d.* @ 7*s.* 1*d.*	4*s.* 5*d.* @ 6*s.* 7*d.*	3*s.* 8*d.* @ 5*s.* 5*d.*
Pepper, black - - - *lb.*	3½*d* @ 4¼*d.*	3¾*d* @ 4½*d.*	3¼*d.* @ 4*d.*	3*d.* @ 4*d.*
Rum, Jamaica - - - *gall.*	4*s.* 11*d.* @ 5*s.*	4*s.* @ 4*s.* 2*d.*	2*s.* 6*d.* @ 2*s.* 9*d.*	2*s.* 9*d.* @ 2*s.* 10*d.*
Sugar, Muscovado, in bond *cwt.*	44*s.* 10½*d.*	34*s.* 4½*d.*	34*s.* 10*d.*	31*s.* 0¾*d.*
— Havanna, white - - *cwt.*	30*s.* @ 33*s.*	24*s.* @ 33*s.*	25*s.* @ 32*s.*	25*s.* @ 32*s.*
Tallow, Russian candle - *cwt.*	48*s.*	49*s.*	42*s.* 6*d.*	43*s.*
Tar, Stockholm - - *barrel*	22*s.* 6*d.*	18*s.* 6*d.*	11*s.* 9*d.*	15*s.* 6*d.* @ 16*s.*
Tea, Congou - - - - *lb.*	1*s.* 8*d.* @ 2*s.* 7*d.*	1*s.* 10*d.* @ 3*s.* 2*d.*	1*s.* @ 2*s.* 5*d.*	10¼*d.* @ 2*s.* 6*d.*
Tin, English, in bars - - *cwt.*	4*l.* 4*s.* 6*d.*	4*l.*	3*l.* 14*s.*	3*l.* 13*s.*
Tobacco, Virginia, in bond - *lb.*	3¾*d.* @ 7½*d.*	3½*d.* @ 6½*d.*	2*d.* @ 5*d.*	2*d.* @ 5*d.*
Wool, sheep's, Sp., Leonesa *lb.*	2*s.* 1*d.* @ 2*s.* 6*d.*	2*s.* @ 2*s.* 6*d.*	2*s.* @ 2*s.* 6*d.*	1*s.* 9*d.* @ 1*s.* 11*d.*
Logwood, Jamaica - - *ton*	6*l.* 10*s.*	5*l.* 5*s.*	5*l.* 5*s.*	5*l.*

The change which had taken place in the state of the money market during the three years separating the points of comparison in the foregoing table, may be more completely illustrated by the difference in the prices of Consols, Bank Stock, and other securities, in the state of the foreign exchanges, and in the amount of bullion held by the Bank of England.

	In the third week of Nov. 1841.	In the third week of Nov. 1844.
Price of consols - - - - - - -	89	100
— Bank stock - - - - - - -	163	206
Exchequer bills - - - - - - -	2¼d. per diem 12s. pm.	1½d. per diem 60s. pm.
Railway shares.—Great Western £ 100 Shares.	£ 65 pd. 77	£ 75 pd. 139
— London and Birmingham -	£ 90 pd. 155	Stk. 219
Exchange on Paris, short, for bills and money -	25·45	25·65
— on Amsterdam - - - - - -	12·2	12·3
Bullion in the Bank of England - - - -	£ 4,700,000.	£ 14,300,000.
Bank of England notes in circulation - - -	£16,300,000.	£ 21,000,000.

Thus, when the amount of bank notes in circulation had been reduced to the narrowest limits, when the exchanges were low, and the bullion in the Bank at a minimum, and when credit was most restricted, and the rate of interest unusually high, prices, which, by the currency theory, should have been forced down, were, generally, higher than ordinary. And when the former conditions were all, without exception, reversed—when the bank note circulation had been increased by the addition of more than one third to its previous amount *, when the exchanges were high, and rising, the bullion in the Bank greater in amount than it had been for many years, and still increasing, when credit was almost unlimited, and the market rate of interest had for

* The actual difference between the amount of Bank of England notes in circulation in 1841 and in 1844, was, in fact, greater than that shown by the returns, by nearly 700,000*l.* Between the 4th of March, 1843, and the 5th of January, 1844, the Directors of the Bank excluded from the returns of its circulation notes to the amount of 507,279*l.* 19*s.* 2*d.*, on the ground that they had been outstanding more than thirty years, and were therefore supposed to be lost; and a further sum of 188,299*l.* was, during the same period, similarly excluded, on the ground that the notes composing it had been outstanding more than fifteen years, and were therefore considered to be out of circulation. The total sum thus excluded (695,578*l.*) must therefore be added to the apparent, in order to exhibit the actual difference between the amount of the circulation as it was before and after the period within which, as above stated, the exclusion occurred. To make the preceding comparison in the text accord strictly with the facts, the circulation of November, 1841, should be stated at 15,600,000*l.*

two years barely exceeded 2 per cent per annum, or less than half its previous amount, prices, instead of being higher, were, with hardly a solitary exception, considerably lower than at the former period.

No amount or ingenuity of comment could add to the force of the argument against the supposed influence of the amount of the bank note circulation, or of the rate of interest, upon prices, conveyed by a simple statement of these facts.

SECTION 2. — *On the same Phenomena, from the Autumn of* 1844 *to the Close of* 1847.

On the 2nd of September 1844 the Bank Act of that year came into operation. The reasons offered for imposing the peculiar restrictions embodied in this measure will be considered in the next part. It need be noticed here only with reference to one of its most obvious practical effects, as seen in the subsequent operations of the Bank.

It was a favourite boast of the advocates of this measure, frequently reiterated at the period of its discussion in parliament, and which at the time made no slight impression upon the public mind, that its immediate result would be to deprive the Bank at once of the power and the responsibility of "regulating the currency." The issue of notes being placed under the new restrictions, the Bank was to be placed, with reference to all its other business, in a position as free as that of any other banking company: the only responsibility of the Directors, thenceforward, being to the proprietors of bank stock; and their only duty "to make as much as they could" of the capital at their command.

That the Directors were prepared to carry out the spirit of the Act by the line of conduct so autho-

ritatively pointed out to them, became apparent very soon after the Act came into operation. A few days afterwards (on the 5th of September) they issued a notice offering to discount bills of the highest class not having more than ninety-five days to run, at 2½ per cent, and notes at 3 per cent.

In March 1845 the rate was announced to be 2½ per cent for both bills and notes: a rate lower than they had ever before adopted.

At the same time (March 1845) another change was made, small in itself, but highly significant of the altered position of the Bank under the Act of 1844. The rate of interest announced was declared to be a *minimum* rate; and this form of notice has been adhered to ever since.

The importance of these steps in the reduction of the rate of interest, and of the subsequent conduct of the Bank in the same direction, with reference to the state of the circulation during the following years, will be abundantly manifest as we proceed.

When the Act of 1844 came into operation the market rate of discount for commercial bills of the highest character was about 2½ per cent; but it then exhibited a tendency to rise. The Bank, therefore, under the notice of the 5th of September, came into open competition with the large bill-brokers; and the immediate effects were, first, a decided check to the increase of the market rate of interest, already begun, and, secondly, a considerable addition to the amount of private securities in the banking department.

One of the most important circumstances bearing upon the state of the money market at this period was the commencement of that disposition to speculate in the construction of new railways which was carried so far in the following year. Early in 1844, when the restored prosperity of trade was no longer doubtful, and the rate of interest had for

about a year and a half, been under 3 per cent. the attention of the public was strongly attracted to the favourable results of the investments made in the principal lines of railway then in operation. That the system might be extended with equal profit seemed highly probable, particularly when regard was had to the unusually low prices of iron, and other needful materials, and when it was also considered that the experience gained in the construction of the existing lines had suggested improvements likely to reduce, considerably, for the future, the outlay in the first instance. Accordingly, during the spring and summer of that year, while the shares in most of the old lines rose considerably in value, many new companies were projected. In September 1844 prospectuses of more than ninety new schemes were before the public, avowedly requiring for their completion an aggregate amount of capital not much short of 100,000,000*l.* sterling; and the number continued to increase down to the end of the year.

1845.—In the last months of 1844, and for some time afterwards, frequent complaints were heard of losses incurred upon importations from abroad. The commodities imported in that and the previous year, in exchange for the increased quantity of goods exported, were found, with one or two exceptions (among which were timber and sheep's wool), so far to exceed the demand for them, home and foreign, that in very many instances the prices obtainable not only left no profit to, but entailed a loss upon, the importer; and hence, notwithstanding an increased rate of consumption, prices at the opening of 1845 ranged, generally, quite as low as, or even lower than, at the beginning of the previous year.

Early in the spring the commencement of several new lines of railway, in different parts of the

country, gave additional employment to the class of agricultural labourers; and thus silenced the last complaints of want of work resulting from the past season of depression.

When Parliament met, the petitions for the requisite powers for the proposed new railways served to give further publicity to the schemes themselves. The uncertainty attending the passage of the bills through the ordeal of legislative discussion, while it strongly excited the hopes and fears of those immediately concerned, seemed also to impart a new charm to the speculation itself. The number of speculators increased rapidly; and as the demand for shares thus increased, the number of new lines projected kept pace with it, till, as the summer advanced, nearly every part of the country was intersected with imaginary lines, and almost every person who had either capital or credit engaged in the purchase and sale of railway shares.

In August, after the fate of the bills before Parliament had been decided for the session, the speculation assumed all the apparent characteristics of a mania. Symptoms of an approaching revulsion were, however, then clearly discernible. It was remarked by the least observant, that the lapse of a few months had introduced among the speculators a great number of persons who acted without reference to any hope of profit on the completion of the undertakings in question, or, indeed, to anything whatever but the speculative opinions concerning them most current, for the moment, in the share market. Thus shares were commonly, indeed almost invariably, bought, not for permanent investment, but with a view to a speedy sale at an inordinate profit. And there is reason to believe that almost the only real buyers of shares after the middle of August, and during the few weeks in which the speculation rose to its climax, were per-

sons of limited means, and of still more limited information on the subject, who were tempted to speculate by instances of enormous gain apparently realised by the fortunate adventurers who had been earlier in the field.

From this point forward the speculation degenerated, as might be expected, into a variety of the worst species of gambling. As long as the class of persons last referred to continued to come forward, the prices of shares continued to rise; and if we may rely, with any degree of confidence, upon numerous subsequent revelations, the inflated condition of the share market was at this time very extensively sustained by the report of transactions either entirely fictitious, or designed only to deceive ignorant and unwary speculators.

During the first six months of 1845 every item in the accounts of the Bank of England had presented a remarkably regular and satisfactory appearance. The bullion increased steadily from 14,800,000*l.* in the first week of January, to 16,600,000*l.* in the last week of June; while the circulation, with the exception of the usual expansion after the payment of the dividends, varied but little from an average level of about 21,000,000*l.* And the Bank note circulation of the United Kingdom was similarly undisturbed.

The Bank rate of interest remained at 2½ per cent, and that current in the market, for first class bills, was nearly the same, being occasionally a trifle lower.

About the middle of September there was a perceptible, though slight, rise in the current rate of interest, and it continued till about the middle of October; when the rate of discount for first class bills ranged from 3¼ to 3¾ per cent. On the 16th of October the Bank rate was advanced to 3 per cent.

The general increase of the rate of interest at

this time was attributed, and not without apparent reason, partly to the arrangements in progress for providing the large amount (about 14,600,000*l.*) required to be deposited with the agents of the Government in London, Edinburgh, and Dublin, on behalf of the subscribers to the numerous railway schemes about to be submitted to Parliament, and partly to the first pressure of the additional calls made on account of the lines which had been sanctioned in the previous session.

The rise went on till, in November, the current rate was 4½ per cent. On the 6th of that month the Bank rate was raised to 3½ per cent.

But the crisis of the railway fever had already come.

The first increase of the Bank rate of interest in October, though it left the rate still somewhat below the general level of the market, excited much attention, and some uneasiness. Before the end of October an anxious desire to realise at the high prices then current, manifested itself among the shareholders in railways to an extent that was termed a panic. Prices declined; great numbers of persons who had bought only in the expectation of a still further rise, and who had no guide in their speculation but the share lists of the day, hastened to sell; and the decline increased in rapidity, till, in less than a fortnight, the prices of shares in most of the lines, old and new, were reduced below the level at which they had stood two or three months before; and the share markets established in every large town in the kingdom, which had for several months been filled with crowds of eager speculators, were almost entirely deserted.

It was at this period, when public confidence in the permanence of the value of railway shares was shaken and declining, and speculation had ceased, that the circulation of the Bank of England, and

that of the Country Banks, reached respectively their highest points during the year.

The markets for produce in 1845 did not share, in the slightest degree, the speculative spirit so prominently displayed in the markets for railway shares, and also, though in a minor degree, in some other and similar fields of enterprize. The price of iron, indeed, and of some other articles of less general importance, required in railway construction, rose steadily, and somewhat rapidly, from the autumn of 1844, when the ascertained and probable demand began to exceed materially the means of supply at the command of the producers, till the summer of the following year, when, under the stimulus (continued during some six months) of high prices, and a very large prospective demand, the means of supply had been very much extended. In September 1844, the current price of British bar iron was 5*l.* 5*s.* to 5*l.* 10*s.* per ton; and the price had not varied materially from this level during the two years previous. In March 1845 the price had risen to 10*l.* 10*s.* per ton. At this point it remained for a few months, and then declined, ranging during the remainder of the year at from 8*l.* to 9*l.* per ton. There was also a slight general tendency, during the latter half of 1845, to an advance of the prices of some of the raw materials of our manufactures the consumption of which had most rapidly increased, and also in the prices of some of the principal articles of colonial produce, more particularly sugar and coffee, the quantities of which entered for consumption in 1845 greatly exceeded those of any former year. The price of tea would doubtless have been similarly affected had not the importations been enormously increased by the inability of our merchants to obtain any other eligible return for the additional quantity of British goods recently exported

to and sold in China, or had the home demand not been checked by a high duty.

The Bank note circulation reached in November 1845 the highest weekly average amount it attained during the eight years under review. The markets for produce, generally, at this period, exhibit, however, nearly as many instances of the fall as of the rise of prices; and in every instance of movement, in either direction, the amount of the stocks on hand, the prospects of their renewal, and the extent of the current demand, will be found to afford, when taken together, a complete explanation of the changes observed.

1846.—The increased price of the most necessary articles of food during the autumn and winter of 1845–46, and the uncertainty prevalent as to the adequacy of the supply of corn in the country to meet the additional demand thrown upon it by the failure of the potato crop, checked, for a time, the demand for articles of secondary necessity. The markets for produce were, during the winter and spring, remarkably quiet: buyers and sellers being alike unwilling to act upon the future, and prices varying but slightly, and only in accordance with immediate and tolerably well founded anticipations.

The terms of the advances by the Bank remained unaltered, (the minimum rate of interest being 3½ per cent,) while the rate current out of doors continued to advance, till about the end of February 1846, when the process of collecting and paying in the deposits on account of projected railways was completed, and when the current rate reached 5 per cent.

From June till November 1845, the exchanges with the continent were gradually and on the whole considerably depressed; and the bullion in the Bank fell during the same period from 16,500,000*l.* to 13,000,000*l.* But during the four months extend-

ing from the beginning of November 1845 to the beginning of March 1846, the exchanges were rising; while the amount of bullion in the Bank slowly increased; and the circulation, allowing for periodical variations, was steadily falling.

After March 1846, the current rate of interest for first class bills declined gradually, till in September it scarcely exceeded the Bank rate of 3 per cent. At the same time the bullion was increasing rather rapidly (reaching 16,200,000*l.* in the first week of September); while the circulation preserved, with but little variation, the lower level it had fallen to early in the year.

The following figures show the amount of the circulation and the bullion, in the fourth week after each dividend day, from the summer of 1845 to that of 1846.

			Circulation (including Post Bills).	Bullion.
1845.	Week ending	Augt. 9th.	£22,500,000	£15,600,000
		Nov. 15th.	22,500,000	13,500,000
1846.		Feb. 7th.	21,300,000	13,300,000
		May 9th.	21,300,000	13,800,000
		Aug. 8th.	21,200,000	15,900,000

The progressive decline of the rate of interest, between the spring and autumn of 1846, from 5 to 3 per cent, with the accompanying, though comparatively slight, diminution of the amount of Bank notes in circulation, seems, however, to have had no more effect upon prices than similar changes are observed to have had before.

The markets for produce, generally, during the spring and summer of 1846, were in a remarkably quiet and uniform condition, the consumption of nearly all articles of common use being fully sustained at the high level reached in the previous year.

In the autumn of 1846 circumstances arose which in a few weeks materially changed the aspect of commercial affairs at home and abroad. The almost total failure of the potato crop, the

deficiency of the grain crop on the Continent, the comparatively small stocks of grain in this country, and the rapid rate at which the consumption had been proceeding for more than a year, combined to render it extremely probable that a large foreign outlay would be necessary to secure an adequate supply of food during the coming year.

The uneasiness created in the public mind by the anticipation of such an outlay, and its probable consequences, had a depressing effect upon the markets for produce during the last two or three months of the year.

From the middle of September to about the first week in November the exchanges were depressed, and the bullion in the Bank fell from 16,200,000*l.* to 14,700,000*l.* The exchanges then became more favourable, and the stock of bullion increased, though not more than is usual during the last few weeks of the year. The change, however, served to allay the uneasy feeling with which the public had begun to regard the previous drain; and, as the demand in the home market for articles of general consumption was found not to be nearly so much affected as the high prices of food had led importers and producers to expect, the markets assumed a more animated appearance as the opening of the new year approached.

The prospective scarcity of cotton led, in December, 1846, to some considerable purchases being made on speculation; but an advance of price commensurate with the estimated deficiency of the supply having been established, and the rate of consumption proportionately checked, the movement quietly subsided. One or two other articles of importance, as tallow and hemp, of which the supply, already short, was deemed likely to fall much below the current demand in the ensuing year, also rose considerably in price during the last months of the year; but in no instance did

the advance exhibit any symptoms of what is usually termed speculation. In every instance it was gradual; and in most it was amply justified by the event.

1847.—In January 1847 a variety of circumstances combined to induce a pressure upon the money market. Railway calls upon British lines, and on foreign lines, shares in which were extensively held in this country, were becoming immediately due to an amount estimated, in the aggregate, at not less than 6,000,000*l.* The exchanges with the continent, and especially with Russia, again showed a decidedly adverse tendency. Difficulties which had for some time previously beset the Bank of France had now come to a crisis; and the measures found requisite to sustain the credit of that establishment began to operate upon this country. And at the same time the prospect of still higher prices for corn, and of very large importations before the next harvest, with the ascertained deficiency of the supply of cotton, and the expectation, at this time becoming general, that the drain of floating capital for railway construction would eventually prove too heavy for the diminished resources of the country, tended strongly to produce among the mercantile classes a vague feeling of apprehension.

On the 14th of January the minimum rate for discounts at the Bank was raised from 3 to 3½ per cent, and on the 21st to 4 per cent. The rapid diminution of the bullion, and the higher rate of interest current out of doors, afforded an abundant explanation of these steps; yet they excited considerable alarm.

The bullion, which at the end of January had fallen to 12,900,000*l.*, continued slowly to decrease, chiefly by exportation to France and the United States, during February and the first three weeks of March. Thenceforward the drain proceeded more

rapidly till the week ending the 24th of April, when the bullion in the two departments had fallen to 9,200,000*l.*: showing a loss of nearly six millions in four months.*

Between the 2nd of January and the 24th of April, the reserve in the banking department was reduced from 8,920,000*l.* against liabilities to the amount of 18,795,000*l.* to 3,383,000*l.* against liabilities exceeding 12,600,000*l.*

The market rate of interest continued to advance. On the 8th of April the minimum rate at the Bank was raised to 5 per cent; and during the latter period of the drain the terms of the advances and discounts were gradually restricted, till in the third week of April it was understood that only bills of the first class, due in May and June, were discountable at so low a rate as 5½ per cent; those running into July being charged 6 per cent, and many being altogether rejected: the Directors having determined that only a limited amount should be

* Here it may be useful to advert to certain financial operations on the part of the Russian government, which had the effect of relieving, in some degree, the monetary pressure prevailing in this country, and in France, in the spring of 1847.

The only securities of a nature readily available, held by the Bank of France pending the embarrassment of that establishment in the last months of 1846, consisted of 3 per cent. rentes to the amount of 50,000,000 of francs. These were not sold, the influence of the government having, it is supposed, been used to avert the sale, as likely to affect injuriously the terms of a public loan then in contemplation. Early in March, an offer was received by the Bank of France from the Russian government, to purchase the whole of these securities. A conference took place between the Russian Chargé d'Affaires, the minister of France, and the Conseil Général, and a transfer was accordingly made, on the 11th of that month, at the price then current. At this time, a loan of a million sterling granted by the Bank of England to the Bank of France in January, still remained due; and the credit thus raised at St. Petersburgh in favour of the latter (upwards of 1,500,000*l.*) became conveniently available for meeting heavy drafts from the north of Europe upon France and England, for corn supplied to both, as well as for large supplies to the latter, at unusually high prices,

discounted, however unexceptionable the bills, and however high the credit of the party offering them. This last circumstance—the entire rejection of bills without reference to their character—it was, which brought on the extreme severity of the pressure in April.

During the first four months of the year the markets for produce (excepting the districts of the cotton manufacture, in which business was checked by the high price of the raw material) were, generally, in an active and prosperous condition, the demand for home consumption being, throughout, well maintained.

The pressure upon the money market in the spring of 1847 may be said to have attained its greatest severity in the last week of April. At this time the effect of the violent contraction of its advances by the Bank was seen in the stoppage of the transmission of bullion to America. A considerable amount in gold, which was on the point of being shipped (and even some that had been actually placed on board) was withdrawn, and applied to the making of payments in this country.

In the following week, however, it was observed that the bullion in the Bank was increasing; and it was understood that the Directors were affording increased accommodation — making advances on

of hemp, flax, and tallow, the stocks of which articles in this country were much reduced at the end of 1846.

The operation above described would appear, however, to have been only a part of one much more extensive, and having for its object the substitution of interest-bearing securities for a portion of the large stock of bullion held in reserve against the government paper money of Russia. About the end of April, there was received in this country a copy of an imperial ukase (dated 31st March 1847) by which it was decreed that of the 114,000,000 of silver rubles then forming "the bullion capital of the department of credit billets,"—" a sum should be set apart to the extent of 30,000,000 of silver rubles for the gradual purchase of public securities, Russian and foreign, at home and abroad."

Stock and Exchequer Bills, and discounting bills not having more than ninety-five days to run, at 5 and 5½ per cent.

Thenceforward, during May, the pressure gradually abated; and at the end of that month the bullion had risen to 10,100,000*l*., while the circulation, which at the end of April had been 20,600,000*l*., had fallen to 19,400,000*l*.

On the 7th of May the Chancellor of the Exchequer announced that the rate of interest on the Exchequer Bills falling due on the 21st [amounting to 9,000,000*l*.] would be raised from 2*d*. to 3*d*. per diem, and that a discount of 5 per cent would be allowed upon so much of the remaining instalments of the Irish loan (of 8,000,000*l*. contracted for at the beginning of the year) as should be paid up before the period stipulated. During the greater part of the month of May the discounts and advances of the Bank were made freely at rates varying from 5 to 5½ per cent; but the rate current out of doors, which had been since January higher than that charged by the Bank, ranged, for short bills of the highest character, at about 6 per cent. On the 4th of June the Chancellor of the Exchequer announced that payments on account of the Irish loan had been made in anticipation to the extent, in the aggregate, of 2,678,000*l*. Thenceforward the rate of interest declined; and the money market remained in a comparatively quiet condition; the Bank extending its advances as usual before the dividend day in July, and discounting short bills freely at 5 per cent.

Early in July the exportation of bullion to America was renewed; and about the same time a considerable fall took place in the exchanges with the continent; and the repayment of the advances made by the Bank during the previous six weeks having increased the demand for accommodation, the rate of interest again rose, and continued to

rise, though slowly, during the remainder of the month.

The accounts of the Bank for the week ending the 31st of July showed a diminution of the bullion, during the four weeks preceding, of about a million: and on Monday the 2nd of August it was resolved, at an extraordinary meeting of the Directors, that only bills having less than one month to run should be discounted at 5 per cent, those having not more than two months to run at 5½, and all of longer date (not exceeding ninety-five days) at a minimum rate of 6 per cent. On the following Thursday the minimum rate was raised to 5½ per cent.

At the beginning of August, though the drain to America continued, the exchanges with the continent were, and had been for a week or two, improving; and during the three following weeks the bullion remained very nearly stationary at 9,200,000*l.*; that being also about the lowest amount it had fallen to in April.

The market rate of interest continued to range, with little variation, about one per cent higher than the minimum rate at the Bank.

Before the end of August the high rate of interest was very severely felt by all whose current business required the aid of credit; and as it became evident that no relief was to be expected even from the assurance of an abundant harvest, complaints became general as to the large amount of capital being sunk in the construction of new railways; and various propositions were made and discussed for reducing the demand in this direction; but without any practical result.

The markets for produce remained undisturbed from the beginning of the year down to the month of September: the demand for home consumption continuing rather active than otherwise, and the deficiency of the foreign demand in Europe for

articles of export from this country being largely made up by increased orders from America and the Mediterranean.

Besides the commercial failures which took place during August in connection with the sudden fall in the price of corn, and which are adverted to in the previous chapter, several other large failures occurred early in September, among which were those of Gower, Nephews and Co., and Reid, Irving and Co.; and before the end of the month, five or six other firms of scarcely inferior magnitude, besides many houses of less importance, in London and the country, were added to the list.

On the 2nd of September the minimum rate of interest at the Bank had been reduced, preparatory to the usual advances at this period, from 5½ to 5 per cent; and in the following week the circulation was at the lowest point it reached during the year, viz. 18,600,000*l.*; the bullion being 8,900,000*l.*

In the second week of September affairs in the money market assumed an appearance of much doubt and alarm; and the failures before mentioned were followed by others, in rapid succession, down to the end of November.

And here, after nearly twelve months of monetary pressure, gradually increasing during the greater part of the time, and at the commencement of some six weeks of the utmost discredit and distrust, with the circulation lower in amount than it had been at any time since the summer of 1842, and a rate of interest current higher than had prevailed at any former period within the eight years now under review, it may be worth while, once more, to refer somewhat particularly to the state of prices. The following table contains the prices, in London, of all the most important articles of produce in the second week of September 1847, and also at the same period in each of the two years immediately preceding. With the ap-

pended statement of the concurrent variations of the Bank of England circulation, and the rate of interest, it may be left to speak for itself.

	1845. September.	1846. September.	1847. September.
Ashes, Canadian, pearl - *cwt.*	24*s.* @ 24*s.* 6*d.*	25*s.* @ 25*s.* 6*d.*	37*s.* @ 38*s*
Timber, fir, Dantzic and Memel *load.*	3*l.* 17*s.* @ 4*l.* 10*s.*	4*l.* @ 4*l.* 10*s.*	4*l.* @ 4*l.* 10*s.*
— Quebec yellow pine *load.*	3*l.* 10*s.* @ 4*l.*	3*l.* 10*s* .@ 4*l.*	3*l.* 10*s.* @ 4*l.*
Hemp, St. Petersburg, clean *ton.*	27*l.* @ 27*l.* 5*s.*	30*l.* @ 30*l.* 10*s.*	38*l.*
Flax, Riga, P. T. R. - - *ton.*	46*l.* @ 51*l.*	46*l.* @ 52*l.*	46*l.* @ 54*l.*
Tar, Stockholm - - *barrel.*	15*s.* 6*d.*	16*s.* @ 16*s.* 6*d.*	17*s.* 3*d.* @ 17*s.* 6*d.*
Tallow, St. Petersburg, New Y. C. - - - - *cwt.*	41*s.* @ 41*s.* 6*d.*	42*s.* 3*d.* @ 42*s.* 6*d.*	46*s.* 6*d.* @ 46*s.* 9*d.*
Iron, British, bars - - *ton.*	8*l.* 5*s.*	9*l.* 10*s.* @ 9*l.* 12*s.* 6*d*	9*l.* 15*s.*
— Swedish, in bond - - *ton.*	10*l.* 10*s.* @ 11*l.*	11*l.* @ 11*l.* 10*s.*	11*l.* 5*s.* @ 11*l.* 10*s.*
Copper, in tough cake - *ton.*	88*l.* 10*s.*	88*l.* 10*s.*	98*l.*
Lead, British, in pigs - - *ton.*	19*l* 5*s.* @ 19*l.* 10*s.*	18*l.* 10*s.* @ 18*l.* 15*s.*	18*l.* 15*s.*
Tin, English, bars - - *ton.*	91*l.* 10*s.*	93*l.* 10*s.*	86*l.* 10*s.*
Cotton, bowed Georgia - - *lb.*	3¾*d.* @ 5*d.*	4*d.* @ 5½*d.*	6*d.* @ 7¾*d.*
— Surat - - - - *lb.*	2¾*d.* @ 3¾*d.*	2½*d.* @ 3½*d.*	4¾*d.* @ 5¾*d.*
Wool, English, fleeces - - *lb.*	12*s.* 10*d.* @ 17*s.*	11*s.* 10*d.* @ 15*s.* 10*d.*	10*s.* @ 13*s.* 10*d.*
— Spanish, Leonesa - *lb.*	2*s.* @ 2*s.* 3*d.*	1*s.* 8*d.* @ 2*s.*	1*s.* 8*d.* @ 2*s.*
Silk, East India - - - *lb.*	9*s.* @ 19*s.*	8*s.* @ 17*s.*	6*s.* 6*s.* @ 15*s.*
— Italian - - - - *lb.*	21*s.* @ 30*s.*	18*s.* @ 26*s.* 6*d.*	16*s.* @ 22*s.*
Coffee, St. Domingo - - *cwt.*	31*s.* @ 35*s.*	28*s.* @ 32*s.*	28*s.* @ 32*s.* 6*d.*
— Jamaica - - - *cwt.*	30*s.* @ 136*s.*	28*s.* @ 115*s.*	25*s.* @ 128*s.*
Tea, Congou - - - - *lb.*	9*d.* @ 2*s.* 6*d.*	8½*d.* @ 2*s.*	9½*d.* @ 2*s.*
Tobacco, Virginia, in bond - *lb.*	2½*d.* @ 5½*d.*	2½*d.* @ 5½*d.*	2½*d.* @ 5½*d.*
Indigo, East India - - - *lb.*	1*s.* 10*d.* @ 5*s.* 9*d.*	1*s.* 6*d.* @ 6*s.*	1*s.* 8*d.* @ 6½*d.*
Cochineal - - - - *lb.*	5*s.* @ 6*s.* 7*d.*	4*s.* 11*d.* @ 6*s.* 9*d.*	4*s.* 9*d.* @ 7*s.*
Logwood, Jamaica - - *ton.*	4*l.* 15*s.* @ 5*l.* 7*s.*	4*l.* 5*s.* @ 4*l.* 10*s.*	4*l.* 5*s.* @ 4*l.* 5*s.*
Saltpetre, East India - - *cwt.*	23*s.* 6*d.* @ 27*s.* 6*d.*	23*s.* 6*d.* @ 27*s.* 6*d.*	27*s.* 6*d.* @ 30*s.*
Sugar, Muscov. average - *cwt.*	35*s.* 1*d.*	32*s.* 5*d.*	26*s.* 4½*d.*
Rum, Jamaica - - - *gall.*	3*s.* @ 3*s.* 2*d.*	2*s.* 11*d.* @ 3*s.* 2*d.*	3*s.* 4*d.* @ 3*s.* 10*d.*
Beef, American and Canadian *tierce.*	68*s.* @ 77*s.*	78*s.* @ 105*s.*	95*s.* @ 102*s.* 6*d.*
Butter, Cork - - - *cwt.*	80*s.* @ 82*s.*	92*s.* @ 96*s.*	92*s* @ 96*s.*
Bank of England.—Circulation.	£ 21,719, 484.	£ 21,465,605.	£ 18,655, 017.
Bullion.	£ 15,426,858.	£ 16,273,827.	£ 8,915,072.
Market rate of interest on first class bills.	2½ to 3 per cent.	3 to 3½ per cent.	6 to 7 per cent.

From the second week of September, to near the close of November, the ordinary course of commercial transactions in this country was so much deranged by the violent contraction of credit, that the state of prices during that period cannot be regarded as otherwise than exceptional.

If the price-currents of November be compared with those of June or July, it will be observed that the price of nearly every article of any importance had fallen in the interval, though in various degrees. If particular attention be given to the instances in which the fall was greatest, it will be

observed that they are all comprised in one or both of two classes: that they were either articles, the prices of which had been declining for some time previously, from an excess of supply, as compared with the current demand, (and therefore could not but continue to fall, when the general demand was still farther diminished,) or such as, having been largely held upon credit, were forced upon the market, in considerable quantities, under the monetary pressure. The instances of lower prices not obviously comprised in either of these classes are less remarkable; and they are clearly traceable either to a corresponding change in the relation of supply to demand, or to the necessity to raise money by extraordinary methods for immediate purposes which has lately been felt by wholesale dealers of every denomination.

But, however the general reduction of prices during the period in question was actually brought about, it is abundantly evident that it cannot be attributed, in any degree, to a diminution of the amount of bank notes in circulation: for this amount was considerably greater in October and November, than in July and August. If the average amount of the notes of the Bank of England, or of all the banks of issue in the United Kingdom, in the hands of the public in any given number of weeks following the dividend day in July, be compared with the average in a similar period after the dividend day in October, it will be seen that the latter was, by much, the higher of the two.*

* The average amount of Bank of England notes in circulation in the six weeks ending the 14th of August 1847 was 19,600,000*l.*; and in the six weeks ending the 20th of November it was 20,900,000*l.* There was a corresponding variation in the aggregate Bank note circulation of the United Kingdom; which, in the month ending the 14th of August, amounted to 34,500,000*l.*, and in that ending the 6th of November, to 36,700,000*l.*

If the range of prices were dependent upon the amount of the Bank note circulation, the former should have been higher, not lower, in November than in July; whereas the fact is to the contrary.

6th Dec. 1847.

PART III.

A GENERAL REVIEW OF THE CURRENCY QUESTION IN ITS VARIOUS PHASES FROM 1797 TO THE CLOSE OF 1809.

INTRODUCTION.

There cannot be a stronger proof of the difficulties which surround the subject of the currency, than that which is afforded by the present state of the controversy relating to it. After all the discussion the topic has undergone during the half century which has elapsed since the suspension of cash payments, it presents, apparently, as wide a field as ever of debateable ground. There are still the following vexed questions—the meaning of the words "money," "currency," "depreciation," "excessive issues," the test or standard by which excess and depreciation are to be determined and measured; the power of over-issue of a note circulation by the country banks and the Bank of England; and the causes which influence the foreign exchange,—or, in other words, whether an adverse balance of foreign payments has its origin in, and is indicative of, a redundancy of the currency, or is to be accounted for on mercantile grounds, irrespective of the amount of the circulation, and, mutatis mutandis, of the opposite state of things. On all these points, and some minor ones, there exists still as wide a difference of opinion as prevailed in the earlier discussions on the subject. Of those discussions, and of the circumstances which gave rise to them, an account has been given in the former volumes of this work; but a brief recapitulation of some of the principal points raised by them

will be found to be desirable, as being calculated to throw light upon the present state of the controversy; and, indeed is, in some degree requisite, for reasons which I shall have occasion to advert to presently.

Previously to the suspension of cash payments, by the Bank of England in 1797, questions of money and currency, in their more general bearings, had been very little a subject of public interest or discussion. On the occasion of the great recoinage of silver, in 1696, there was an animated controversy between Mr. Locke and Mr. Lowndes as to what should be the denomination and standard, when Mr. Locke's opinion in favour of the maintenance of the standard at its full weight of metal, according to the Mint regulations then existing, prevailed, and was acted upon. For some years afterwards, difficulties arose in adjusting the relative value of the gold coins to the silver; and Sir Isaac Newton, the master of the Mint, made an elaborate report, according to which the value of the guinea was finally fixed at 21 shillings, or as 1 to 15·07. In the middle of last century, Hume's Essays on Money and Trade were published; and being written with all the charms of his popular style, and presenting, as they did, new and philosophic views of the nature and functions of money and paper credit, they attracted attention at the time, and have ever since been occasionally referred to, as authority, on some of the topics discussed in them. But the opinions expressed in them are for the most part crude, and the conclusions are in many instances very loosely drawn. Sir James Stewart's treatise on Political Economy, published in 1767, contained a great deal of miscellaneous information relating to the circulation of coin and paper, both in this country and abroad; but it disclosed no general views of the principles upon which variation in their value depended.

It was reserved for Dr. Adam Smith to lay down and explain, in an admirably lucid style, the fundamental principles by which the value of coins and paper credit is determined, and ought to be regulated. The doctrines on the subject developed in the great work entitled "the Wealth of Nations" were at once received, and formed the established creed, leaving little room for dissent or discussion, till the great disturbing causes towards the close of last century came into operation. Under the pressure of those disturbing causes, (which have been detailed in the first volume of this work,) the Bank of England was compelled to suspend its payments in cash, and the controversy arose which with few intervals has continued to the present time.

CHAPTER I.

THE PERIOD FROM 1797 TO 1819.

SECTION 1.—*On the Progress of the Discussion from* 1797 *to* 1809.

It is a prevalent opinion among those who have of late years taken part in the currency controversy, that little of public notice or attention was directed to the state of the circulation from the date of the Bank restriction till the occurrence of the circumstances that gave rise to the appointment of the Bullion Committee in 1810.* The impression to this effect is, however, hardly correct.

The fact of the suspension of cash payments in 1797, and the restriction bill then brought in, naturally gave rise to animated debates in parliament, and to a host of pamphlets. When, however, it was found, not only that no depreciation had taken place as an immediate consequence of that measure, but that the exchanges were more in favour of this country than they had been at any former period of the century, and that the Bank was in a condition, if required or allowed, to resume its payments in cash, little or no further attention was directed to the subject.

On the occurrence of a combination of circumstances at the close of 1799, which I have in a former volume described †, and which had the effect of producing a sudden and great fall

* Sir R. Peel, in his elaborate speech of the 6th of May 1844, on the occasion of introducing the Bank bill of that year, observed, that "from 1797 to 1810, public attention was not much directed to this important subject."

† Vol. I. pp. 240, 241.

in the exchanges, and a low range of them for two years, the attention of the public was again strongly drawn to questions on the state of the currency. Mr. Boyd, at the close of 1800, published a letter addressed by him to Mr. Pitt, ascribing the whole of the fall in the exchanges, and the rise in the price of provisions, to excessive issues of Bank of England notes. This publication excited considerable notice, and gave occasion to a great deal of discussion. It drew forth answers, among others, from Sir Francis Baring, and Mr. Henry Thornton. The treatise by the latter, entitled "An Inquiry into the Nature and Effects of the Paper Credit of Great Britain," is in every way a remarkable work. It was the subject of an article by the late Mr. Horner, in the Edinburgh Review for October 1802; and the tribute therein paid to the great merit of Mr. Thornton's tract, and the prefatory remarks by which the notice of it is introduced, have so direct a bearing upon the present discussion, that I am induced to insert the following extracts.

"The progress of commercial philosophy has been much accelerated by the writings of practical men of business. In that, as well as in the other departments of civil knowledge, it is only from the actual course of affairs that the statesman can derive his maxims of policy, or the speculative enquirer deduce the conclusions of his science; but the habits of both are incompatible with a personal knowledge of detail. It is necessary that the labour of accumulating particular facts should be separated from the more liberal task of generalising these into principles; and that they who are qualified to combine larger views should be furnished by the minute accuracy of others, with descriptions in which they may confide. In England, which is the native country of political economy, works contributed by professional men form a large deposit of authenticated facts. For these we are primarily indebted to that diffused literature which multiplies the demand for varied information, and has already liberalized the practitioners in almost every work of industry. But the greater number of these publications have been suggested by such occasional events in the fluctuation of our commercial prosperity, as rouse a general interest and

direct the curiosity of the public to that quarter of the great machine in which the derangement is supposed to have taken place. It is in this manner that every period of dearth has contributed, in some degree, to alleviate subsequent years of scarcity by the instruction which it yielded against popular prejudice. More numerous tracts, in which alone the detailed history of our foreign commerce can be traced, at least during its earlier progress, appear to have been prompted by the frequent disturbance which the balance of exchanges suffered from the alternatives of war and peace. The immediate consequences of the South Sea scheme, and of the many wild projects that raged about the same time, were somewhat compensated by the more distinct knowledge which they ultimately furnished with respect to the bounds of commercial adventure. It was in a similar manner, from the embarrassments occasioned in the reign of King William, by the reformation of the coin, that our politicians first derived a clear and steady light on the subject of metallic circulation. And the operations of that curious system, by which the use of precious coin is now almost superseded, remained in a great measure unknown to all but the bankers and traders of London, until the suspension of cash payments at the Bank of England produced that copious information which, in various forms, has been communicated to the public. Of all the publications which that momentous event has occasioned, the most valuable, unquestionably, is this of Mr. Thornton. With no ostentatious professions, and with no admixture of superfluous matter, it contains the largest portion of new information that has for a long time been offered to them, who, either for the pleasures of speculation, or with a view to public life, are engaged in the researches of public economy."—(*Edinburgh Review*, *No.* 1, *Oct.* 1802, p. 173.)

The concluding sentences of the article are peculiarly entitled to attention, as conveying, in language the most clear and definite, an anticipation of the course of events which, after an interval of several years, rendered the subject of the currency permanent among the questions of the time.

"We have expressed ourselves," says the reviewer, "with unaffected doubt with regard to this alleged dependence of the present rate of prices on the present state of the paper currency, because it appears to us a problem of which a satisfactory solution has not yet been offered. According to that view of the question, indeed, which seems to us the most correct, as well as the most simple, a sufficient answer will be assigned, if the excess of the market price of gold above its Mint price shall be found to continue, notwithstanding the

permanent restoration of the balance of trade to its accustomed preponderancy in our favour. In the meantime we should be glad to see the fact itself, of which the origin and cause are thus anxiously sought, perspicuously stated under its necessary distinctions and limitations. It may, perhaps, be in the power of those who have paid attention to such minute but valuable details, to date the first appearance of this recent increase of prices, and to trace its progressive diffusion over all the relations of internal exchange. In such a statement it would be necessary likewise to specify in what proportion this rise is locally confined to our own island, or common to us with the Continent of Europe; and to distinguish in what proportion that local rise consists of a real increase in the bullion price, and of a nominal increase only in the currency price."—(p. 201.)

The whole of the article evinces a degree of knowledge of the subject quite extraordinary, considering the period at which it was written. This, with the comprehensive views unfolded in the paper, and the philosophic spirit which pervaded it, gave promise of the eminence which the writer of it subsequently attained. While, however, offering my humble tribute to the great merit of the publications here referred to, I must guard myself against being held to agree with all the doctrines of any of them.

A work of considerable importance on the subject, by Lord King, appeared not long after these. It is entitled, "Thoughts on the Effects of the Bank Restriction," and was published in May 1803. There is in the Edinburgh Review for October, 1846, a very able and interesting article on "Lord Fortescue's Memoir of the Speeches and Writings of the late Lord King." In referring to the above-mentioned treatise, the reviewer, Mr. Senior, observes:

"When this publication appeared, we had not the report of the Bullion Committee. We had not Mr. Ricardo's pamphlets. The subject had not been considered year after year, in and out of parliament, by the ablest men, theoretically and practically, in the kingdom; and, above all, we had not the experience of the sixteen years which followed." And he adds, "It contains so full and, in the main, so true an exposition of the theory of

paper-money*, that, after more than forty years of discussion, there is little to add to it or to correct."

With some qualifications and reservations, I am disposed to concur in the praise bestowed by the reviewer on this work. It was, with the other two publications here noticed, far in advance of the knowledge of the public on the subject. Each of these three writers affirms the principle of a metallic standard; and their doctrine of the circumstances affecting the foreign exchanges agrees, in the main, with that which is now generally received.

The subject was again comparatively little attended to in the interval between the spring of 1803 and 1809, because, during that period, notwithstanding the renewal of the war between this country and France, the currency was in a quiescent and apparently satisfactory state; there being little, if any, depreciation indicated by the price of gold, or by the foreign exchanges. This state of things is referred to and correctly described by the very able writer of the article in the Edinburgh Review, on the Speeches and Writings of the late Lord King, before referred to.

The reviewer, while justly extolling Lord King's general views on the subject of the currency, and on the objectionable character and *tendency* of the act for the restriction on cash payments, questions the reasons assigned by the author for affirming the existence of a depreciation; namely, the price of bullion and the foreign exchanges.

"Lord King then proceeds to state two reasons for affirming the existence of a depreciation. These are, the price of bullion and foreign exchange.

"The argument founded on the price of bullion is the least satisfactory part of the work. In the first place, he takes the price of silver instead of gold as the test of depreciation; but

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* I shall have occasion hereafter to notice the use of the term *paper-money*.

silver is not the English standard. When Lord King wrote, it could be legally tendered only in payment of sums under 25*l.*; and in fact it never was so abundant as to be employed, except as small change. To state that the Mint price of silver was 5*s.* 2*d.*, and the market price was 5*s.* 7*d.*, was merely to state that the relative values of silver and gold had altered since they were assumed by the Mint. A rise in the price of gold bullion might have been really important; but Lord King does not seem to have perceived, or, if he perceived, he has not clearly stated, that when we speak of the value of the metal which is itself the standard of value, we, in general, merely express the number and weight of the pieces into which a given quantity of it is coined. When we say that gold sells for 3*l.* 17*s.* 10½*d.* an ounce, we do not mean that it sells for that amount of gold, of silver, and of copper, but that in return for forty pounds of gold, the Mint gives 1869 pieces of equal fineness, weighing also forty pounds; or, in other words, that forty pounds of gold are coined into 1869 sovereigns. This is the state of things when coin and bullion are equally exportable by law, — when the coin is of full weight, and the Mint charges nothing for coinage. Coin and bullion must then be of precisely equal value, and cannot measure one another. We might as well talk of the weight of water in water, or of the value of lead in lead, as of the price of gold in gold. Were an ounce of gold to fall one-tenth of its present cost of production, or to cost ten times as much labour as it does now, still, while the regulations of the Mint are unaltered, it will be worth 3*l.* 17*s.* 10½*d.*

"Of course, laws may be enacted by which coined money may be made more or less valuable than bullion. If the Mint demand a seignorage, it may be more valuable. If it be forbidden to melt or export it, it may be less valuable. This was the law in 1803, and had been so for centuries before. Whenever, therefore, the exchanges were against us sufficiently to allow the export of specie, bullion became rather more valuable than coin. In 1810, the difference was about 4*s.* per ounce. The market price of exportable gold was 90*s.* per ounce, and that of gold the product of British coin, and therefore not exportable, 86*s.* In May, 1803, and for more than a year before, and a year after, no prices of gold are returned by the Mint: but on the 13th of April, 1804, the first quotation which occurs after the date of Lord King's publication, when the notes of the Bank of England amounted to 17,494,640*l.*, the price of foreign, and therefore exportable, gold was 4*l.* per ounce, and does not appear to have risen above that price for several years. Now, as the difference between 4*l.* and 3*l.* 17*s.* 10½*d.* is less than the difference between the value of exportable and non-exportable gold, we are inclined to consider the price of gold between 1804 and 1808 as evidence rather against than in favour of depreciation.

"We now come to Lord King's other ground for affirming an existing depreciation — the state of the foreign exchanges. The second edition of his work is dated the 20th of March, 1804; the exchange on Hamburgh was then 35. 4.; that on Paris was 25. 2. Now, these rates deviate so little, if indeed they deviate at all, from par, that they offer in themselves no evidence of depreciation.

"Lord King, therefore, was forced to argue, that, unless our currency were depreciated, the exchanges between England and the Continent must be in our favour, and that their being so low as par, therefore, was evidence of depreciation."

"But though Lord King's general views were sound, and in some respects original, the inference which he drew, in the case before him, was manifestly unwarranted. The reader will recollect, that, when he wrote, the exchange on Hamburgh was 35. 4., and on Paris 25. 2. But 25. 2. was higher than it had ever been since the autumn of 1790, and 35. 4. was higher than that of 1792, which averaged little above 34., and higher still than that of 1795, which was below 33. As there could have been no depreciation before the Restriction Act, the comparison of the exchanges of 1804 with those of 1791, 1792, and 1795, though it may not exclude the possibility of depreciation, is certainly unfavourable to it.

"The last evidence of depreciation mentioned by Lord King, is, 'the general increase of prices, and diminution of the value of money.' He does not dwell on it, but rather alludes to it as a well-known fact, than as a premise requiring to be proved. Many commodities must at that time have risen in price, if our currency had continued metallic. Some, in consequence of their having been made the subjects of specific taxation, others from the interruption of commerce diminishing the supply, and others from the wants of war, or of preparation for war, increasing the demand. Such a rise, however, would have been partial. On the other hand, a rise of price, occasioned by a depreciation of the currency, must of course have been general: it must have added a per centage to all the other causes of price. At the time of which we are speaking, many important commodities were *below* their average price. Wheat, for instance, was, —

January 1. 1803,	-	-	57*s*. 1*d*.
July 1. 1803,	-	-	60*s*. 4*d*.
January 1. 1804,	-	-	52*s*. 3*d*.
July 1. 1804,	-	-	52*s*. 1*d*.

To show the reduction of prices of other commodities in 1803 and 1804, the reviewer refers to quotations from vol. ii. of this work, "History of Prices," p. 397, and then goes on to observe: —

"The reader will suspect, from all that we have said, that we do not admit the generally received doctrine of a depreciation of British currency, coexistent with the whole period of the restriction of cash payments. We believe, with Mr. Tooke, that depreciation did not begin until the latter part of the year 1808. The merits of Lord King's work are, that he early perceived the *tendency* of the Restriction Act. That he saw the inadequacy of the limits which the Bank directors assigned to their issues. That he urged, with a force and a clearness which have not been surpassed, the necessity of returning to cash payments; and that he based his practical recommendations in theories generally sound, and frequently original; and that he did this at the age of twenty-eight. Its defects are, that he was too ready to believe that what was probable must also be true. That, finding that certain effects were likely to be produced, he inferred, on insufficient evidence, that they had been already produced. In short, that he turned what ought to have been merely a prophecy, and as a prophecy was an instance of great sagacity, into a positive statement.

"As we cannot explain the moderation of the Bank during the first five years of the restriction, by imputing to its directors a knowledge of the principles by which their issues ought to have been regulated, we think that Mr. Tooke's mode of accounting for it must be adopted: namely, that they adhered to the routine of their establishment, and that that routine accidentally preserved them from a conduct to which they were exposed by their neglect of the foreign exchanges and the price of bullion.

"This routine was to discount, at five per cent., first-rate bills having a short period to run, and founded, as we have seen, on a real transaction. But on such bills five per cent. discount was a very high rate of interest. In ordinary times they may be discounted at three or two and a half, or even two per cent. The public therefore did, in the words of the directors, control the issues of the Bank, on the terms imposed by the Bank; it did not ask for more than the Bank could supply, without materially affecting the value of its notes."—(*Edinburgh Review, No.* 170, p. 315.)

I have been induced to insert this long extract, not only because it conveys, as far as it goes, an accurate description of the state of things in the interval under consideration, but also because it confers the sanction of the high authority of the reviewer in favour of the correctness of the account of it contained in the earlier part of this work. There will be occasion for me to notice hereafter

some views of the writer of the article just quoted regarding the state of things between 1808 and 1814, as to which I cannot concur with him. In the mean time, reverting to the period from the first suspension of cash payments to the latter months of 1808, being an interval of nearly twelve years, there are one or two other considerations bearing on the question of the currency, which it may here be proper to touch upon.

Section 2.—*On the Steadiness of the Exchanges, and on the Variations in the Prices of Commodities, during the first twelve Years of the Restriction.*

It certainly is a striking fact, that for so long a period after the Restriction Act, so uniform a value of the currency and of the amount of the circulation should have been preserved. The exchanges were (with the exception of two years from the autumn of 1799 to that of 1801, when the most violent disturbing causes acted upon them—large importations of corn, and an enormous expenditure abroad by the government) as high as they had been on an average of the 96 years, or of any consecutive ten years, of the last century, preceding 1797. The price of gold, with the same exception, did not exceed 4*l.*; being a depreciation, according to the strict definition which I admit, of between 2 and 3 per cent. Even this small difference, which, in a practical point of view, is hardly worth mentioning, would not have existed if the Bank had not needlessly held out 4*l.* as its minimum price for all the gold that might be offered.

This, of itself, is a curious fact; and no attempt has ever been made to explain it by the vast ma-

jority of those who, under the influence of the currency theory, or of the Birmingham school, write or talk of the period of the Bank restriction as having been characterised in its whole course by abundant or excessive issues of paper money, and consequent depreciation.

Another fact, which is partially noticed in the preceding extract, relating to the prices of commodities during the interval in question, is, that sugar and coffee, and other articles of colonial produce, and of Baltic produce, wheat, and provisions of all kinds, attained very high prices between 1795 and 1801; and that these and all other articles had experienced nearly if not quite their greatest elevation of price before the end of the first six months of 1809. I shall have occasion to notice this fact more at large a little further on. In the mean time, I may quote, as a striking instance of the profound want of knowledge which prevails, as to the state of things at that period, among persons who, from their station and their having occasion to speak on the subject in Parliament, might reasonably be expected to have at least some little information about it, the following passage in the speech of Mr. Goulburn, in answer to Mr. Hawes's motion of amendment on the second reading of Sir Robert Peel's Bill (13th June, 1844.)

"At the time that the suspension of the Bank "first took place, there was *not at first a perceptible* "*rise in prices: it came gradually on. The rise in the* "*prices of articles was not perceivable*; but at length "the value of gold, *from the redundancy of the paper* "*circulation*, rose in price; so that, instead of its "being 3*l.* 17*s.* 10*d.*, it was at last above 5*l.*"

That the Minister of Finance should know so little, or absolutely nothing, of the real state of things, or should have the impression of a state of

them so opposite to that which really existed, must be matter of just surprise; especially seeing that the phenomena of the period in question are fertile in considerations and suggestions relating to finance.

SECTION 3. — *On the comparative Magnitude of the Advances by the Bank to the Government during the same Period*—[1797–1809].

There is yet one more fact to be observed upon in connection with the period now under consideration, viz., *that the excess of the advances by the Bank to the Government, over and above the amount of Government deposits, from the period of the suspension* of cash payments *in* 1797, *to the year* 1811, *was actually smaller in amount than the same excess during the seven years preceding that event.* The following figures, founded upon official returns*, represent the average surplus of public *securities* over public *deposits*, during the years indicated.

Years, both inclusive.		Average Surplus of Public Securities over Public Deposits.
		£
1780	1784	4,841,000
1785	1789	2,335,000
1790	1796	5,664,000
1797	1803	5,364,000
1804	1810	4,146,000

* Lords' Reports, 1819, Appendices, A 5 and A 9, and Bank Charter Report of 1832, Appendices, No. 24 and No. 5. There is no specific return of the *private deposits* prior to 1807; but it is known that up to, and for a long time subsequent to that date, they did not exceed about 1,000,000*l.*

In the Bullion Report of 1810 is the following

"Your Committee have had an account laid before them of advances made by the Bank to Government on Land and Malt, Exchequer Bills, and other securities, in every year since the suspension of cash payments; from which — as compared with the accounts laid before the Committees of 1797, and which were then carried back for twenty years — it will appear that the yearly advances have, upon an average, since the suspension, been considerably lower in amount than the average amount of advances prior to that event; and the amount of those advances in the last two years, though greater in amount than those of some years immediately preceding, is less than it was for any of the six years preceding the restriction of cash payments."

This fact is partially referred to in the Lords' Report of 1819. But the comparison there instituted is between the amount of the *securities* and the amount of the *circulation*. The passage is as follows: —

"From the year 1790 to the year 1797, when the Restriction Act passed, the amount of advances made by the Bank to Government, and of the notes outstanding on the 25th of February in each year, was as follows: —

	Bank Notes.	Advances.
1790	10,217,360	7,908,968
1791	11,699,140	9,603,978
1792	11,349,810	9,839,338
1793	11,451,180	9,066,698
1794	10,963,380	8,786,514
1795	13,539,160	11,114,230
1796	11,030,110	11,718,730

"The amount, therefore, of advances to Government does not appear to have borne, for some time previous to the Restriction Act, a much less proportion to the total amount of notes outstanding, than the advances since 1814 have borne to the notes issued in corresponding periods."

The following statement of the amount of the Government deposits, or balances in the hands of the Bank, I received, in 1829, from my late lamented friend, Mr. Pascoe Grenfell, who had been at some trouble to prepare it from documents previously

laid before Parliament; and I took occasion to insert it in a letter to Lord Grenville, which I published in that year: —

In 1800, the aggregate average was - -	£6,251,488
In 1806, ditto - - - - -	12,197,303
From 1806 to 1817, the amount fluctuated between - - - - -	11 & 12,000,000
Now the average of the advances by the Bank to Government, from 1806 to 1810, both years included, amounted to - - - - -	14,492,970
Average of public money in the hands of the Bank, about 11,500,000*l.*, from which are to be deducted about 500,000*l.* for unclaimed dividends, these having been deducted from the amount of the Bank advances - - - -	11,000,000
Leaving the actual cash advance only about -	3,500,000

This comparative smallness of the advances to Government completely negatives the supposition, so commonly entertained and reasoned upon as a point beyond doubt, that the Bank was rendered, by the restriction, a mere engine in the hands of Government, for facilitating its financial operations. And whether this moderation in the amount of advances resulted exclusively from the forbearance of Government in not requiring, or from the firmness of the Directors in refusing, such accommodation, it equally tends (especially when combined with the consideration of the large amount of treasure in possession of the Bank during the greater part of the restriction) to strengthen the presumption, that the Government and the Directors of that period were sincere in the declaration. that there constantly existed, on the part of both, a reference to the eventual resumption of cash payments.

It is only one, but not the least important, of the instances of the unaccountable ignorance which prevails, as to the circumstances of that period, that this fact, of the comparative moderation of the amount of the public securities for so long an in-

terval seems to have been almost wholly overlooked; and that persons, otherwise well informed, still declaim upon the assumed fact of the Bank having, by excessive issues, afforded undue facilities to Government during the whole period of the suspension of cash payments. And we constantly hear such persons talk of a depreciation of bank notes of 20 or 25 per cent. as characterising the whole or the greater part of that period. It is in truth only to the interval between the autumn of 1808 and the summer of 1814 that the most striking phenomena of the great depression of the exchanges, and of the high price of bullion, were confined; with the exception, which I have before alluded to, of the two years from the close of 1799 to that of 1801.

SECTION 4.—*On the Progress of the Discussion from* 1809 *to* 1811.

Towards the close of 1808, and through the whole of 1809, the exchanges fell, and the price of bullion rose considerably, under the combined influence of large importations of corn, and raw materials of manufacture, and naval stores, and of remittances of an unusual amount to the continent of Europe for subsidies, and for the maintenance of our own armies abroad. This great fall in the exchanges, and consequent rise in the price of bullion, naturally attracted attention; but was not brought prominently into notice till the appearance of Mr. Ricardo's first pamphlet, "The high Price of Bullion a Proof of the Depreciation of Bank Notes."

Early in the session of 1810 the subject was brought under the consideration of the House of

* The introduction to the first edition is dated Dec. 1. 1809.

Commons, and a committee, afterwards known as "The Bullion Committee," was appointed to inquire into the causes of the high price of bullion. The appointment of this committee is thus noticed by Sir Robert Peel, in his Speech of the 6th of May, 1844: —

"In 1810 men of sagacity observed that the ex-
"changes had been, for a considerable period, un-
"favourable to this country — *more unfavourable*
"*than could be accounted for by the balance of trade,*
"*or the monetary transactions of the country.* A
"committee was appointed to inquire into the
"subject."

This passage of Sir Robert Peel's Speech is here quoted, as leading, by the words which I have marked in italics, to the inference, that he adopted not only the general principles laid down in the Report, establishing *the fact* of depreciation, but the reasoning in it, tending to show that that fact could not be accounted for by the balance of trade, or the monetary transactions of the country. Now this is the point which was and is still contested by those who, agreeing in the general principles laid down in that report, deny that there were circumstances *corroborative* (*in addition to the high price of bullion*) of the fact of depreciation.

The Report of the committee was printed, and presented to the House of Commons on the 20th June, 1810, the day before the prorogation, and consequently too late to admit of the subject being then discussed.

A very able pamphlet, on the bullion side of the question, by Mr. Huskisson, entitled, "The Question respecting the Depreciation of our Currency stated and examined," appeared soon after.

There was a host of publications, as might naturally be supposed, in opposition to the Bullion Report; not only dissenting from the explanation therein given of the cause of the fall in the exchanges,

and the high price of bullion, but denying the principle of a metallic standard—denying consequently the existence of depreciation, and maintaining the doctrine contended for by the Bank Directors, that their issues could not be in excess as long as they were confined to the discount of bonâ fide bills not having more than sixty-one days to run. The only pamphlet, however, of any importance, or that attained any considerable circulation on the side opposed to the Bullion Report as to all points, was entitled, "Practical Observations on the Report of the Bullion Committee, by Charles Bosanquet, Esq."

The Report of the Bullion Committee was made the ground for a set of sixteen resolutions, moved in the House of Commons, on the 6th May, 1811, by Mr. Horner, the chairman of that committee; the last of these resolutions being, in pursuance of the recommendation in the Report, to make it imperative on the Bank to resume cash payments at the end of two years. A counter-set of resolutions was moved by Mr. Vansittart; the third of them being the memorable one, "That the promissory "notes of the Bank of England have hitherto been, "and are at this time held to be, equivalent to the "legal coin of the realm." The rival resolutions of Mr. Vansittart, including this last, which has been a standing topic of ridicule ever since, were carried, on the 9th of May, by a majority of 151 to 75; and in the division on the sixteenth resolution, proposed by Mr. Horner, affirming the necessity of resuming cash payments within two years, the numbers were still more in favour of the Government; being 180 to 45.

In the House of Lords a discussion on the currency took place in consequence of steps that had been taken by Lord King, requiring his tenants, holding leases granted before the assumed beginning

of the depreciation, to pay their rent either in guineas or in Portugal gold coin of equal weight, or in Bank-of-England notes sufficient to purchase the weight of standard gold requisite to discharge the rent. This proceeding of Lord King was made the ground for a bill brought in by the late Lord Stanhope, making it illegal to pay or to receive gold at more or less than its nominal value. The bill passed both Houses in July, 1811; and thus terminated, as far as regarded any particular interest taken in it at that time by the public, the controversy relating to the currency, till 1819.

SECTION 5.—*On the Opinions of the Bullion Committee on the Phenomena of the Circulation in* 1809–1811.

As the Bullion Report was noticed by Sir Robert Peel, in his introductory Speech in May, 1844, and as the state of things connected with the currency, at the period of the Report, was referred to and commented upon by Mr. Hawes, and by some of those members who followed him in the debate on his motion of the 13th of June, 1844, it may be worth while to make a few remarks on the controversy to which that Report and the pamphlets of the time gave rise in 1810 and 1811.

Mr. Ricardo's pamphlet preceded the Report. His exposition of the theory of the currency was that upon which the more scientific part of the controversy turned; and as the theory so expounded seems to have been implicitly adopted by Sir Robert Peel (with an exaggeration, however, in supposing the possible depreciation of strictly convertible paper), an examination of it is of importance with reference to the views which led to the measure of 1844.

There is, in the *Edinburgh Review* for February, 1811, an article, written, I have reason to believe, by the late Mr. Malthus, under the title "Depreciation of the Currency," containing a critique, in my opinion, so just, as far as it goes, of Mr. Ricardo's theory, that I am induced to insert here some extracts from it.

"The great fault of Mr. Ricardo's performance is the partial view which he takes of the causes which operate upon the course of exchange. * * * * He attributes a favourable or unfavourable exchange exclusively to a redundant or deficient currency, and overlooks the varying desires and wants of different societies as an original cause of a temporary excess of imports above exports, or exports above imports.

"To point out more explicitly the effects of these partial views on the reasoning of Mr. Ricardo, we will quote his criticism on a passage in Mr. Thornton's work on paper credit, in which the error of his principles appears in a very striking light:—

"Mr. Thornton had stated, in substance, that a very unfavourable balance of trade might be occasioned in this country by a bad harvest; that there might be, at the same time, an unwillingness in the country to which we were indebted to receive our goods in payment, and that under these circumstances the balance due must be paid for in part by bullion.' On this statement Mr. Ricardo observes, that 'Mr. Thornton has not explained to us why any unwillingness should exist in the foreign country to receive our goods in exchange for their corn; and it would be necessary for him to show, that if such unwillingness were to exist, we should agree to indulge it so far as to part with our coin. If we consent to give coin in exchange for goods, it must be from choice, not necessity. We should not import more goods than we export, unless we had a redundancy of currency which it therefore suits us to make a part of our exports. *The exportation of coin is caused by its cheapness, and is not the effect, but the cause, of an unfavourable balance.* We should not export it if we did not send it to a better market, or if we had any commodity which we could export more profitably. It is a salutary remedy for a redundant currency; and as I have endeavoured to prove that redundancy or excess is only a relative term, it follows that the demand for it abroad arises only from the comparative deficiency of the currency of the importing country which there causes its superior value.' This reasoning Mr.

Ricardo applies equally to the stronger case of the payment of a subsidy to a foreign power.

"Now, we would ask what necessary connection there is between the wants of a nation for unusual importations of corn, occasioned by a bad harvest, or its desire to transmit a large subsidy to a foreign power, occasioned by a treaty to that effect, and the question of redundant or deficient currencies? Surely such wants or desires might occur in one or two countries, where immediately previous to their existence the precious metals circulated, as nearly as possible, on a level. And the unwillingness of the country to which the debt is owing, to receive, in payment, a great quantity of goods beyond what it is in the habit of giving orders for, and consuming, stands much less in need of explanation than that a bad harvest, or the necessity of paying a subsidy in one country, should be immediately and invariably accompanied by an unusual demand for muslins, hardware, and colonial produce, in some other. We know indeed, that such a demand will to a certain degree exist, owing to the fall in the bills upon the debtor country, and the consequent opportunity of purchasing its commodities at a cheaper rate than usual. But if the debt for the corn or the subsidy be considerable, and require prompt payment, the bills on the debtor country will fall below the price of the transport of the precious metals. A part of the debt will be paid in these metals, and a part by the increased exports of commodities. But, as far as it is paid by the transmission of bullion, this transmission does not merely originate in redundancy of currency. It is not occasioned by its cheapness. It is not, as Mr. Ricardo endeavours to persuade us, the cause of the unfavourable balance, instead of the effect. It is not merely a salutary remedy for a redundant currency: but it is owing precisely to the cause mentioned by Mr. Thornton — the unwillingness of the creditor nation to receive a great additional quantity of goods not wanted for immediate consumption, without being bribed to it by excessive cheapness; and its willingness to receive bullion — the currency of the commercial world — without any such bribe. It is unquestionably true, as stated by Mr. Ricardo, that no nation will pay a debt in the precious metals, if it can do it cheaper by commodities; but the prices of commodities are liable to great depressions from a glut in the market; whereas the precious metals, on account of their having been constituted, by the universal consent of society, the general medium of exchange, and instrument of commerce will pay a debt of the largest amount at its nominal estimation, according to the quantity of bullion contained in the respective currencies of the countries in question. And whatever variations between the quantity of currency and commodities may be stated to take place subsequent to the commencement of these transactions, it cannot be for a moment

doubted that the cause of them is to be found in the wants and desires of one of the two nations, and not in any original redundancy or deficiency of currency in either of them.

"The same kind of error which we have here noticed pervades other parts of Mr. Ricardo's pamphlet, particularly the opening of his subject." — (*Edinburgh Review*, Feb. 1811, pp. 343—345.)

And, a few pages further on, the same line of criticism is thus continued:—

"One of the principal faults which we have remarked in almost all the writers who are unfavourable to the Bank Restriction is, that they have not made sufficient concessions to the mercantile classes, in some points, where they appear to have truth on their side. We have already adverted to the error (confined, however, principally to Mr. Ricardo, and from which the Report is entirely free) of denying the existence of a balance of trade, or of payments not connected with some original redundancy or deficiency of currency. A practical merchant must, to be sure, be extremely surprised at such a denial, and feel more than ever confirmed in his preference of practice to theory. But there is another point in which also almost all the writers on this side of the question concur, where, notwithstanding, we cannot agree with them, and feel more inclined to the mercantile view of the subject. Though they acknowledge that bullion occasionally passes from one country to another, from causes connected with the exchange, yet they represent these transactions as quite inconsiderable in degree. Mr. Huskisson observes, that 'the operations in the trade of 'bullion originate almost entirely *in the fresh supplies* which 'are poured in from the mines of the New World, and are 'chiefly confined to the distribution of those supplies through 'the different parts of Europe. *If this supply were to cease 'altogether, the dealings in gold and silver, as objects of foreign 'trade, would be very few**, *and those of short duration.*'

"Mr. Ricardo, in his reply to Mr. Bosanquet, refers to this passage with particular approbation. * * * Now, though we are perfectly ready to acknowledge, that an unfavourable exchange has a tendency to right itself, without the transmission of the precious metals, and that the transmission of a moderate quantity has a considerable effect, yet we cannot believe that these transactions are altogether either few in number or small in amount. If the precious metals did not

* The experience of 1828—29, 1830—1832, 1839, and 1847, abundantly disproves the correctness of this remark.

pass from one country to another, in consequence of the state of the exchange, the varying necessities of these countries would frequently raise the rate of the exchange very far above the expense of transport; and it would be impossible for the debtor country to make its payments at the time promised. But if the precious metals *do* pass readily from one country to another from this cause, we cannot help thinking that the same varying desires and necessities must render these transactions not very unfrequent. Every peculiar failure or peculiar abundance of produce, in any of the states of the great mercantile republic, every subsidy to be paid or received, and every movement of a considerable army from one country to another, must almost inevitably give some employment to the bullion trade: and when the level of the precious metals has been in some degree destroyed by these necessary operations, the bullion dealer is again called into action to restore the balance. But not only on such occasions as these does bullion pass from one country to another, but it is well known that most states, in their usual relations of commercial intercourse, have an almost constantly favourable exchange with some countries, and an almost constantly unfavourable one with others. And Dr. A. Smith has justly observed, that bullion forms, in general, the most convenient medium for carrying on the various roundabout foreign trades of consumption which a country finds it necessary to engage in, and is, in consequence, greatly used for this purpose. It appears, then, that in the most permanent and ordinary relations of countries with each other, the bullion trader will always have something to do. — *Edinburgh Review*, Feb. 1811. pp. 361, 362.)

Mr. Ricardo, in an Appendix to a new edition of his Pamphlet, wrote an answer to the article (here quoted) of the Edinburgh Review. This answer, however, contains little more than a repetition, in varied forms of expression, according to the phraseology peculiar to the theory in question, of the axiom that gold will not be exported unless it is cheaper than any other commodity; assuming, consequently, the fact to have been, that all commodities were at that time dearer in this country than they were abroad, relatively to gold. The misapprehension of the facts of the case, involved in this view of them by Mr. Ricardo, was participated in by the other eminent persons who took the same side in

the controversy. Mr. Huskisson, for example, in his Pamphlet, which was published soon after the appearance of the Bullion Report, assumes, as implicitly as the rest of the Bullion Committee, the existence of a fact not only not true, but the reverse of the truth, viz. that prices of commodities had risen in the two years preceding the date of either the Report or the Pamphlet. This assumption he makes in arguing against the assertion of the anti-bullionists, that gold had become dearer on the Continent; and he asks,

"Dear in exchange for what? For the gold coin of the Continent? Such an assertion would be ridiculous. Dear in exchange for any depreciated paper? This is very probable in several parts of the Continent, but is surely not the criterion to which we shall be referred. Dear in exchange for all other commodities? Is this a fact? Where is the evidence of it? Are cloths, corn, iron, or any other leading articles, twenty per cent. cheaper on the Continent than they were if paid for in gold? Certainly not. And if they were so on the Continent, has not the drain lasted long enough to bring matters to a level, and produce the same effect in this country? *Has the price of commodities in this country fallen within these two years? Is not the contrary notoriously the fact?*"—(*Questions concerning the Depreciation, &c.*, p. 90., edition of 1831.)

This total misapprehension, and consequent misrepresentation, of the actual state of things connected with the prices of commodities at that time has been forcibly pointed out by the late Mr. James Deacon Hume, in one of the letters under the signature H. B. T., which he addressed to the editor of the *Morning Chronicle* in January 1834, and which were afterwards published as a pamphlet. Mr. Hawes (who alone, of all those members who took part in the debate on his motion of the 13th June, appears to have possessed any accurate knowledge of the state of things connected with the currency at the period of the Bullion Report), when questioning the correctness of the prevalent notion of the depreciation of Bank notes during the

suspension of cash payments, referred, in support of his view, to the opinion of Mr. J. D. Hume on the subject, and gave a short extract from that publication. As the authority of Mr. Hume, who was contemporary with and an accurate observer of events connected with the commerce of the country at that period, is entitled to carry great weight on this point, I am induced to quote from his letters the following passage: —

"It may be observed, that no statistical tables or accounts have been introduced into these letters. There has been no need of them, because I have founded all my positions upon great leading facts which are notorious to all the public. The fact I am about to bring to the recollection of the reader is of this description, — *I mean the ruinously low prices of our manufactures and of our colonial productions under the operation, against England, of the 'Continental system' during the last six years of the war.* Prices are high or low only by comparison; but then it is material to consider what are the proper objects of comparison according to the purpose of the inquiry. For our present purpose we are to compare the English prices with the contemporaneous foreign prices *; and, in doing so, we need not aim at any great accuracy, because the foreign prices of all those descriptions of goods which we held in the greatest abundance were so much *above* the English prices, that if we were to take them at only half the amount, the excess would still be enough to have given the exporter an enormous profit over and above what he got by taking gold, even if he could have bought gold with his Bank notes at the Mint price. *I mean to assert that the prices of sugar*† *and coffee, for in-*

* No mistake can be greater than comparing the prices of those times with subsequent prices.—*Note by Mr. Hume.*

† Mr. Hawes having, in his speech of the 13th June, 1844, quoted this passage, Mr. Goulburn, as Chancellor of the Exchequer, considered it incumbent on him to reply; but the only point of the quotation that he seems to have caught was the word "sugar;" and his answer, according to the report in the "Times," was to the following effect: — "The honourable gentleman (Mr. Hawes) agreed with the principles laid down by the Bullion Committee; but then he did not agree with them in their opinions respecting prices; and he referred to the price of sugar, at the time the Bullion Committee made its report, for the purpose of showing that the

stance, on the Continent, computed in gold, were four or five times higher than their prices in England computed in Bank notes. I am speaking of the times of the Berlin and Milan decrees and the British orders in council — of the times of the licence system and of the blockade system — of the times in which the French chemists discovered sugar in beet-root, and a substitute of coffee in chicory, and when the English grazier tried experiments upon fattening oxen with treacle and molasses — of the times when we took possession of the island of Heligoland, in order to form there a depôt of goods, to facilitate, if possible, the smuggling of them into the north of Europe, and when the lighter descriptions of British manufactures found their way into Germany through Turkey. It will be remembered that the French decrees declared, on one hand, that no vessel should enter a continental port if she came from England, or even had touched at England; on the other hand, our orders in council declared that no ship should go to the Continent unless she came from England. Whatever might be the military merit of this mode of retaliation, its commercial effect against ourselves was most pernicious. Our fleets had complete possession of the seas at that time, and they compelled every ship they met to make for a British port. *The consequence was, that almost all the merchandise of the world accumulated in our warehouses, where they became impounded, except when some small quantity was released by a French licence,* for which the merchants of Hamburgh or Amsterdam had, perhaps, given Napoleon such a sum as forty or fifty thousand pounds. *They must have been strange merchants, according to the bullionists, to have paid so large a sum for liberty to carry a cargo of goods from a dear market to a cheap one.* What was the ostensible alternative the merchant had? Literally this — either to buy coffee at 6*d.* per pound in *Bank notes,* and send it to a place where it would instantly sell at 3*s.* or 4*s.* a pound *in gold!* or to buy gold with Bank notes at 5*l.* an ounce, and send it to a place where it would be received at 3*l.* 17*s.* 10½*d.* an ounce.

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paper at that time was not in excess. Let them, he said, see what was the price of sugar at that time. In consequence of the naval predominance of England at that very time, this country had the command of the sugar market. To show this, he need but refer to the fact, that at the time the English army entered into France —'the English and sugar,'— it was expected by the people in the South of France that the advance of the English would have brought to them a reduction in the price of sugar." A precious specimen of the knowledge and reasoning of some of the prominent supporters of Sir Robert Peel's measure!

A man might as well pretend to deny all Buonaparte's victories. or even that there ever was such a person, as attempt to deny that such was the state of our intercourse with the Continent during the reign of the decrees. It is too absurd, of course, to say literally and distinctly that the gold was remitted instead of the coffee, as a preferable mercantile operation; *and yet if it was not so, under some explanation which I am totally unable to conjecture, what becomes of Mr. Huskisson's advice to the Bank, to draw in a number of their notes, in order to reduce the price of the coffee to the sum at which it would be a preferable remittance to gold.* I have never been able to extract out of all the writings of the bullionists but one description of reasoning which could even seem to approximate to the shadow of an answer to this objection. I will state it, and expose its futility. They began by showing that all the human laws that ever were made have proved ineffectual in preventing the precious metals from finding their way *out* of the country, which debases its circulating medium; or *into* the country, which contracts its circulating medium, in even a small degree, within the amount which is consistent with the preservation of its intrinsic value. This is perfectly true; and, in proof of it, it would be easy to show that the natural tide of the precious metals did really set in strong upon England through the whole of the time in question. There was not a place in the globe at which we could gain access with some goods, as a valuable consideration, from whence the gold and silver did not spontaneously flow to us; *and there was not a country in the world in which so large a quantity of desirable goods could be obtained for an ounce of gold as in England.* But the error which these good people have fallen into is this—*they are thinking of the facility of smuggling gold, and forget the difficulty of smuggling goods.* The gold, of course, will not come if the goods cannot go; and that the goods could not go at the time in question, is sufficiently proved by their current market prices on different sides of the channel.* The impediment was the resistance of bayonets and cannons; and the efficacy of the impediment is undeniable. I remember well to have heard it frequently said of Buonaparte, at the time all this was going on, that he was constantly examining the English Price Current, in order to ascertain whether, and with what degree of success, his decrees

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* If 60,000 tons of coffee, held here unsaleable at 6*d.* per pound while coffee was 4*s.* or 5*s.* a pound on the Continent is not evidence that the impediment was more than all the subtlety of mercantile men could overcome, it is in vain to look for proof of such a fact.—*Note by Mr. Hume.*

were enforced by his own troops and obeyed by his allies. So long as he saw that gold was dear, and coffee was cheap, in England, he was satisfied that his continental system worked well. The English could see nothing in these documents but proof that the Bank was shamefully extending the issue of its notes." — (*Letters on the Corn Laws, by H. B. T.* London, 1834. p. 29—31.)

And, after discussing at some length several other points of the controversy, Mr. Hume concludes this section of his Pamphlet thus:—

"In the quotation I have given from Mr. Ricardo, he says, and says most truly, 'The only proof which we can possess of the relative cheapness of money in two places is by comparing it with commodities in these two places.' Our money at that time (1808—1814) was wholly paper, unchecked by gold as its test or regulator: it was therefore peculiarly fit to be tested by the prices of commodities in countries where money was subjected to the ordeal of the precious metals. Now I mean to assert, that from this trial of its value our currency of that day will come out triumphant. It is a positive fact that England was the cheapest country in the world during the time when gold was 25 per cent. and upwards above the Mint price. I am told that if I admit the possibility of disturbance by physical force, I deny the theory of money. Then the surgeon who recognises the power of the tourniquet denies the theory of the circulation of the blood." — (Ibid, p. 37.)

The following passage from the Speech of Mr. Huskisson, already quoted, may be adduced as one corroboration out of the immense number which exist, that Mr. Hume has not overstated the degree of misapprehension which prevailed even among the most eminent of the bullionist party, as to the real nature of the vital facts of the question.

"And here he must be permitted to notice, in passing, a very extraordinary statement made by a right honourable gentleman (Mr. Rose), who spoke before him in the debate — a statement not more singular in its nature than contradictory in itself, and wholly subversive of the object for which it was made. In his endeavour to account for the rise of the value of all articles in this country, without reference to a depreciation of the existing currency, that right honourable gentleman had adverted ***to France, and to the apparent rise of prices which had, according to his***

assertion, taken place in that country. The right honourable gentleman had contended that the price of labour was dearer in France than it was in England during the last year*; and thence he inferred that gold was cheaper in France than it was in this country. *Now, granting all this to the honourable gentleman, he would ask him, how he could reconcile such a statement with the fact admitted on all hands, that there was a profit of 20 per cent. made by the exportation of gold to France?*"—(*Speech, 7th May,* 1811—*Speeches,* vol. i. p. 202.)

The assumption by the framers of the Bullion Report and their partisans, of the relative state of prices at that period, so contrary to the actual facts of the case, is quite astounding; for, in reality, there had been a ruinous *fall* of prices in 1810, as compared with 1808 and 1809: and, so far from its being true, as affirmed in the Report, that "the prices of all commodities have risen, and gold appears to have risen in price in common with them,"—all commodities, provisions alone excepted (these being scarce from the effects of bad seasons, combined with obstructions to importation), were *actually falling, while gold was rising.*

I have always admitted that a difference between paper and its metallic standard, from whatever cause arising, establishes the fact of depreciation; because the promise to pay in coin ought to be equal in value to the actual payment. But the framers of the Bullion Report have not been satisfied with confining themselves to this test. Mr. Horner said, on introducing his resolutions, founded on the Bullion Report,—

* Not only labour, but nearly all articles of general use (wine and a few exportable articles excepted) had risen in France, from the date of the revolution there, to the time here referred to, in the full proportion of their rise in this country (see vol. i. p. 337.); and colonial produce was even tenfold higher. But it was quite in vain that facts like these were stated; not the slightest attention was paid to them. The high price of gold was the invariable answer.

"But it is not alone from the extraordinary rise in the market prices of the precious metals in this country—a rise not to be accounted for on the ground of any correspondent rise in the markets of Europe—that the depreciation of our currency is demonstrable. The equally extraordinary rise in the *price of the necessaries of life*, not as compared with the precious metals, but as compared with the actual circulation, affords a clear and convincing proof of its depreciation. *The great and paramount standard of all value, Sir, is corn:* and in order to enable the Committee to form an estimate of this standard, I shall beg leave to call the attention of gentlemen to the *extravagant rise which has within the last few years taken place in the prices of that article*."—(*Mr. Horner, as quoted in Mr. Hawes' Speech of* 13*th June*, 1844, p. 9.)

Precisely the same views were entertained by Mr. Huskisson. In the speech which he delivered in support of Mr. Horner's resolutions, already more than once referred to, there is the following passage:—

"But here he could not help asking, though the price of gold was so increased, was there such a great scarcity of the article? Where were the proofs of this scarcity? He was aware of none; but of this he was confident, that where gold was scarce other commodities must become cheap. Would gentlemen try the question by this test? *Was it the fact that other commodities had become cheap?* But if they were to entrust to the Bank this fearful discretion of countervailing the effects of the rise of the price of gold and silver, he thought *that then the best criterion of the required standard would be found in taking the average price of corn for a given period jointly with the average value of labour.* [Here he read a statement of the average price of wheat imported for the fourteen years since the Bank restriction in 1797.] *Throughout this period the progressive rise in the average price of wheat, at stated periods, proved the gradual depression of our domestic currency.*"—(*Speech, 7th May,* 1811—*Huskisson's Speeches,* vol. i. p. 201.)

Here Mr. Horner and Mr. Huskisson both affirm that "corn is the great and paramount standard of value." And yet, at the very time that they were speaking (May 1811) the price of corn was falling; the average price of wheat, which in August 1810 had been as high as 116*s*., having declined to 86*s*. 11*d*.:

being a fall of nearly 30*s*. a quarter.* And I would refer to a former volume of this work (Vol. I. p. 298.) for a more detailed account of the decline in the prices of corn which then occurred, and of the extraordinary error into which Mr. Horner seems to have fallen respecting it.

Mr. Henry Thornton appears to have participated in the same distorted view of the facts as that under the influence of which Mr. Horner made the remarks above referred to. To go further, here, in exposing the utterly unfounded assumption as to the relative prices of gold and other commodities, hazarded by the ultra-bullionists on that occasion, would occupy too much of this portion of my work. The errors in Mr. Thornton's comparison of the prices of 1800 with those of 1811 have been pointed out at some length (*History of Prices*, vol. i. p. 310.) I will here only, in proof of my assertion of the total misapprehension of the real state of facts on the part of the Bullion Committee and its supporters, in the assumption (in their Report and in the debates that followed it in the session of 1811) of a general rise of prices in the two years immediately preceding, during which the exchanges had fallen, and the price of gold had risen, subjoin the following table, showing the highest prices which various articles of merchandise and produce had attained before the summer of 1809, and their depression in the early part of 1811.

* It is to be borne in mind that the charges on importation were in 1810-11 immoderately high. The freight and insurance alone on wheat from the Continent of Europe amounted to from 30*s*. to 50*s*. per quarter.

ARTICLES.	Prices before the Period of the assumed Depreciation.		Prices during that Period.	
Ashes, Barilla, Carthagena, in bond *cwt.*	1808. Apr.	75*s.* @ 80*s.*	1811. Apr.	35*s.* @ 39*s.*
Coffee, St. Domingo, in bond - *cwt.*	1808. Apr.	80*s.* @ 90*s.*	1811. Apr.	58*s.* @ 68*s.*
British plantation, superior, in bond - - - *cwt.*	1808. Apr.	95*s.* @ 120*s.*	1811. Apr.	75*s.* @ 95*s.*
British plantation, inferior, in bond - - - *cwt.*	1808. Apr.	66*s.* @ 94*s.*	1811. Apr.	38*s.* @ 74*s.*
Cochineal, Spanish garbled, in bond - *lb.*	1798. Apr.	52*s.* @ 54*s.*	1811. Apr.	31*s.* @ 35*s.*
Copper, British, in cakes - - *cwt.*	1808. July	200*s.*	1811. July	140*s.* @ 146*s.*
Cotton wool, bowed Georgia - *lb.*	1807. Apr.	1*s.* @ 1*s.* 2*d.*	1811. Apr.	7*d.* @ 9*d.*
Flax, St. Petersburg, 12 head - *ton*	1808. July	140*l.* @ 142*l.*	1811. July	100*l.* @ 105*l.*
Hemp, St. Petersburg, clean - *ton*	1808. Apr.	117*l.* @ 118*l.*	1811. Apr.	68*l.* @ 70*l.*
Lead, English, in pigs - per 19½ *cwt.*	1806. Apr.	41*l.*	1811. Apr.	33*l.* @ 34*l.*
Indigo, East India, superior - *lb.*	1807. Apr.	11*s.* 6*d.* @ 14*s.* 6*d.*	1811. Apr.	8*s.* @ 9*s.* 6*d.*
Iron, Russia, in bond - - *ton*	1801. Apr.	23*l.* 10*s.* @ 26*l.* 10*s.*	1811. Apr.	14*l.* 10*s.* @ 18*l.* 10*s.*
Oil, Northern fishery - - *tun*	1801. Apr.	49*l.* @ 50*l.*	1811. Apr.	42*l.* @ 46*l.*
Gallipoli, in bond - - *tun*	1808. Apr.	84*l.* @ 85*l.*	1811. Apr.	57*l.* @ 59*l.*
Provisions. Butter, Waterford - *cwt.*	1807. Apr.	108*s.* @ 110*s.*	1810. Apr.	50*s.* @ 95*s.*
Rice, Carolina - - - *cwt.*	1808. Apr.	45*s.* @ 52*s.*	1811. Apr.	23*s.* @ 27*s.*
Saltpetre, rough, in bond - *cwt.*	1799. Jan.	140*s.* @ 143*s.*	1811. Jan.	76*s.* @ 80*s.*
Spices, Cinnamon, Ceylon, 1st quality, in bond - - - *lb.*	1796. Apr.	12*s.* @ 14*s.*	1811. Apr.	8*s.* @ 9*s.*
Pepper, E. I., black, in bond *lb.*	1801. Apr.	18*d.*	1811. Apr.	7*d.*
Spirits, Rum, Jamaica, proof - *gall.*	1805. Apr.	5*s.* @ 6*s.* 6*d.*	1811. Apr.	4*s* 2*d.* @ 5*s.* 3*d.*
Sugar, Havanah, white - - *cwt.*	1806. Jan.	66*s.* @ 87*s.*	1811. Apr.	36*s.* @ 51*s.*
Muscov. Gazette average - *cwt.*	1804. Apr.	52*s.* @ 66*s.*	1811. Apr.	34*s.* 11*d.*
Tallow, Russia, Y. C. - - *cwt.*	1808. July	110*s.* @ 112*s.*	1811. July	74*s.* @ 75*s.*
Tea, Congou - - - *lb.*	1808. Apr.	3*s.* 2*d.* @ 3*s.* 8*d.*	1811. Apr.	2*s.* 11*d.* @ 3*s.* 6*d.*
Timber, Memel fir - - - *load*	1808. July	15*l.* @ 17*l.*	1811. Apr.	10*l.* @ 11*l.* 10*s.*
Tobacco, Virginia, in bond - *lb.*	1808. July	16*d.* @ 24*d.*	1811. Apr.	4*d.* @ 9*d.*
Sheep's wool, Spanish - - *lb.*	1809. Apr.	22*s.* @ 26*s.*	1811. Apr.	7*s.* @ 8*s.*
Logwood, Jamaica - - - *ton*	1803. Apr.	24*l.* @ 25*l.*	1811. Apr.	16*l.* @ 17*l.*

With reference to the rival resolutions of Mr. Horner and Mr. Vansittart, it was only the concluding resolution of the latter set, and the third resolution of Mr. Vansittart's set, that had any practical importance or application. That of Mr. Horner proposed to make it imperative on the Bank to resume cash payments at the end of two years; while that of Mr. Vansittart affirmed the equality of value of the paper and the coin.

But it required more than the mere affirmation, by a vote of the House of Commons, of this equality, to counteract the tendency of such a proceeding as that of Lord King in his notice to his tenantry. The Gold Coin Bill introduced by the late Lord Stanhope, and passed in July 1811, gave the weight of law, and penalties on its infringement, to the dictum of that resolution.

Mr. Canning voted for all Mr. Horner's resolutions except the last, while he poured an irresistible torrent of ridicule upon the expression "sense of value," which Lord Castlereagh made use of in his vindication of the resolutions of Mr. Vansittart.

SECTION 6. — *On the Policy of the Government in rejecting the recommendation of the Bullion Committee for a speedy resumption of Cash Payments.*

Taking a careful and impartial view of the circumstances of those times, as they then presented themselves, I cannot but think that the Government and the House of Commons were right in negativing the resolution making it imperative on the Bank to pay in gold at the end of two years.*

* When treating of this period in a former volume of this work (Vol. I. p. 351.), I expressed a very strong opinion that at the time when Mr. Horner's proposed resolutions were debated in May 1811, it would have been quite impracticable for the Bank to have been placed in a position to resume cash payments within two years from that time, in pursuance of the recommendation of the Bullion Report. But I took occasion to add that, although it would have been impracticable for the Bank to have been placed in such a position *at that time*, it might be questioned whether in 1808; when the exchanges and the price of gold were nearly at par, it would not have been in the power of the Directors, by timely precaution, to have resisted the effect of the violently depressing causes which operated on the foreign exchanges towards the close of 1808; and so to have preserved the exchanges and the price of gold at nearly their par value. And I leaned to the opinion that the attempt, if so made, might have been successful, and thus have averted some part of the calamitous events which burst over the commercial community towards the close of 1809, and marked the interval from that time to the summer of 1811 as one of the most disastrous on record to the mercantile, manufacturing, and banking interests of the country. But on carefully going over the ground again, and reconsidering the circumstances of that time for the purpose of this review, I see reason to doubt whether, if even the Directors had been able in the early part of 1808 to foresee the extraordinary events, political and commercial, which arose suddenly in the latter part of that year (all combining to cause an urgent necessity for immediate transmission of immense sums for foreign payment) they could have counteracted the effect upon the exchanges without a greater convulsion than occurred, and greater than would have been borne. The doubt I now entertain on this score has been strengthened by witnessing the great difficulty (increased, no doubt, by the unwise and mischievous Act of 1844) which the Bank has

But the argument for the continuance of the restriction might and ought to have been placed on its proper footing of *expediency*, under the extraordinary circumstances, political and commercial, of the time; which were palpable enough; and which were appreciated by the public generally; although the ultra-bullionists seemed blind to them. And this might have been done without affirming a resolution so absurdly worded as the third of Mr. Vansittart's set.

If, however, a view of the circumstances of the time leads to the conclusion that it would have been inexpedient to prescribe, peremptorily, a return to cash payments within two years, still more directly does it lead to the conviction that it would have been in the highest degree impolitic on the part of the Government not to have taken measures to prevent the consequences which must have followed if Lord King had not been prevented, by the interference of Parliament, from acting upon the notice which he had given to his tenants. However great, therefore, the deference I feel for the opinion of the distinguished writer of the article in the Edinburgh Review for October 1846 (whom I have been glad to find concurring with me in his view of the state of the currency during the first twelve years following the suspension), I cannot

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recently experienced in counteracting the large balance of foreign payments caused by the failure of the potatoe-crops; although the difficulty so caused has not been aggravated, as was then the case, by the exigences arising out of the stupendous political events which signalised that period. But in truth the supposition that the Directors might have foreseen the events calculated to bear on the exchanges is a superfluous hypothesis; for it has been their professed system, as stated by Mr. Palmer in 1832, not to anticipate; but to await the actual demand on their coffers. And even had that not been their system, they could not in reason be expected, in the early part of 1808, to foresee, what probably no one then living did foresee, as being likely to occur before the close of that year.

agree with him in the regret he expresses at Lord King's not having been allowed to act upon his notice; supposing, as the reviewer does, that the example would have been followed by other landlords, and that eventually there would have been two prices, a gold price and a paper price.

SECTION 7. — *On Lord King's requisition to his Tenants to pay in Gold.*

In the passage from the Edinburgh Review which I here extract, there is much that is questionable.

"At the time when this resolution was carried, the price of gold had risen to 4*l.* 16*s.* an ounce, and the exchange on Hamburgh had fallen to 24*s.* and on Paris to 17. 16.

"Under such circumstances Lord King resolved to show that *he* did not hold the promissory notes of the Bank of England to be equivalent to the legal coin of the realm. He sent a circular to his tenants holding leases granted before the beginning of the depreciation, or when it was less than at the date of the notice, requiring payment of the rent either in guineas or in Portugal gold coin of equal weight, or in Bank of England notes sufficient to purchase the weight of standard gold requisite to discharge the rent.

"It is very seldom indeed that the single act of an individual can do so much good as would have been effected by this notice of Lord King's if parliament had allowed him to act on it. It suggested a safe mode, and that the only mode, by which the public could to a considerable extent correct the errors of the government, and obtain, if not a convenient, at least a steady measure of value. Had not the legislative interference which we have to relate occurred, the example must have been followed. Some difficulty would have arisen at first; all landlords and creditors would not have moderated their legal rights as equitably as Lord King, but this must have been set right by the courts of equity or by law. As to subsequent contracts there could have been no real difficulty: two prices, a gold and a paper price, would have been established, and one understood where the other was not specified. The Bank Directors must have admitted that their notes were of less value than the coin which they promised to pay. They would have maintained, probably, that the variation was occasioned not by the fall of

their paper, but by the rise of gold. But however they accounted for the difference, they must have been nxious to remove it. Though they could neglect the foreign exchange, they could not have borne to see their paper in the British market at an open discount. Not long before, between February and August 1795, they had reduced their circulation from 14,017,510*l.* to 10,862,200*l.*, and in August 1796 to 9,246,790*l.*: a much smaller proportionate reduction would now have been sufficient to raise it to par. But even if they had persisted in their wild course, if they had increased their issues until, as was the case in 1814, they amounted to nearly twenty-nine millions, and gold rose to 5*l.* 10*s.* an ounce, still the mischief would have been much less than what really followed. The public creditors' loss would not have been greater, though it would have been more evident; but it is probable that the government would have been obliged in its subsequent loans to borrow and pay in gold, and the national debt would now be less by many millions. The foreign exchanges would have been quoted in gold, and could not have risen or fallen beyond the expense of transmission. We should have saved in our imports and in our foreign expenditure the additional price which the foreign producer and merchant were forced to put on their commodities in order to indemnify themselves against the contingency of a fall in the value of the unsubstantial paper pound in which our contracts were actually made; and above all we should have escaped all that part which was nominal of the enormous rise of agricultural produce, of rents, and of incumbrances on landed property that were the pretext for the Corn Laws, which have oppressed us for the last thirty years." (Pp. 24. and 45.)

I apprehend that it would have been quite impossible that two prices could have been allowed to subsist—a gold price and a paper price. The inconveniences and anomalies attending such a state of things would have been innumerable, and among these not the least would have been an increased difficulty in the eventual return to cash payments. Indeed so many and so great would have been the inconveniences and anomalies, that, if Government had not interfered, the Bank Directors must, as one of the alternatives suggested by the reviewer, have felt themselves bound to take immediate measures for the removal of the causes of difference. But the effect of the measures requisite

for that purpose would, in my opinion, have been infinitely more severe than he seems to imagine.

Section 8. — *On the Possibility of the Bank counteracting the Fall of the Exchanges in* 1809-1811.

It is to be borne in mind that the year 1811 was one of extreme pressure and intense commercial distress and discredit; insomuch that Parliament sanctioned, in May of that year, an issue of 6,000,000*l.* of Exchequer bills, by way of loan, to merchants and manufacturers. Now, under the measures of violent contraction of mercantile and financial accommodation which must have been resorted to by the Bank in the supposed case, these Exchequer bills must have been unsaleable, or, if saleable at all, only at an enormous discount. As to getting advances upon them, that must have been out of the question; and as the Bank would have closed its doors to discounts, the merchants holding even short bills would have had scarcely any resource. The real rate of interest being above 5 per cent, and the usury law preventing all loans or discounts above that rate, few private lenders would have been found, except upon annuities, or with heavy commissions, or by such other contrivances as were occasionally resorted to at times when the market rate of interest was above the legal rate. And in all such cases the usury law operated as a great additional burthen upon borrowers. Under these circumstances, and at such a time of unprecedented political difficulties, I am perfectly convinced that if the attempt alluded to had been made there would have been a moment of total stoppage of business, something very like a general suspension of all payments, except for retail purposes, and of all business excepting retail trade.

In the passage quoted in the last section from the Edinburgh Review, it is assumed that a much smaller proportionate reduction of the circulation would have been found effectual to raise the exchange to par, in 1811, than that which had been effected by the Bank between February and August 1795, when the reduction was from 14,017,510*l.* to 10,862,200*l.*,—and in August 1796 to 9,246,790*l.*

Upon this assumption I have two remarks to make:—

1. The relative amounts of the circulation, as here presented, do not afford a correct view of the actual circumstances. The amount in Feb. 1795, must be taken as a mere casual occurrence; and I have no doubt that, if explained, it would be found to have arisen from some peculiar transactions, probably between the Exchequer or the Treasury and the Bank, which caused the employment of some of the larger notes and the detention of them out of the usual course. The reason for supposing so is, that there was a sudden increase in the amount between the beginning of January, when it was 10,891,220*l.*, and the 14th of March, when it reached 14,876,580*l.* And on the 21st of March it was still more suddenly reduced to 9,928,140*l.* It is not at all probable that the general circulation of notes can have experienced that increase of four millions, and the sudden diminution by no less an amount than nearly five millions within one week. The whole variation, therefore, in that interval ought to be excluded from the view taken of the effort of the Bank to counteract the fall of the exchanges by a contraction of the circulation.* But, admitting the facts stated, without any such qualification, they embrace an anomaly which would

* There is reason to believe that this extraordinary variation arose from some peculiarity in the mode of payment, by the Treasury, of the bills drawn upon it on account of the Austrian Loan.

militate no less strongly with the assumption of the reviewer. If the reduction from 14 millions to 10 millions was calculated to raise the exchange, the previous advance from 10 millions to 14 millions, in the preceding six months, ought to have depressed it. But how stand the facts?—

Aug. 30	1794,	circulation	10,286,780*l*.	Exch. on Hamburg	35
Feb. 28	1795,	-	14,107,510*l*.	-	36
Aug. 31	1795,	-	10,862,200*l*.	-	32,6

2. The other remark suggested by the assumption of the reviewer is, that the view presented leads to a conclusion directly opposite to that which he attempted to draw from it. The reduction, carried further than even the lowest amount there stated,—for by February 1797 the circulation had been reduced to 8,640,250*l*.,—had not been effectual to restore the exchanges so as to stop the drain, and prevent the suspension which we know took place precisely at the time of that extreme reduction. And it was the inefficacy of the great efforts made by the Bank to contract its liabilities that led Mr. Henry Thornton to contend that the attempt at contraction had been carried too far, and that the catastrophe might have been averted, if the Directors had been more liberal in their accommodation, and had enlarged the circulation, instead of reducing it to so low an amount.

A reference to the state of things attending the efforts of the Bank Directors, in the years 1795-1796, to resist the tendency to a fall of the exchanges (in consequence of the large foreign expenditure, and the extensive importations of corn at that time) tends, therefore, to render it in the highest degree improbable that a less effort on the part of the Bank, or one attended with less pressure on the commerce and finances of the country, would have been more effectual in 1811 than it had been found to be in 1795 and 1796—when it was not effectual.

It may here be worth while to consider what

was the commercial and financial condition of the country consequent upon those efforts of the Bank in 1795-1796.

In a former volume of this work* I have given the particulars of a meeting of merchants, in April 1796, at which resolutions were passed stating the alarming scarcity of money that existed in the city of London at that time. The reviewer inserts a copy of resolutions to a similar effect in March 1797.

There were extensive failures of banks in the North of England, and great mercantile discredit prevailed. The pressure on the money market was very severe; more particularly, as may be supposed, at the close of 1796, and the commencement of 1797. Exchequer bills bearing interest at 3½*d.* per cent per diem were sold at 3*l.* and 3*l.* 10*s.* discount. And it was said that, in some instances, sales were made at 5*l.* per cent discount. Navy and victualling bills were also at an enormous discount. Mercantile bills, excepting such as came within Bank time and conditions, were hardly negotiable at all, or were subject to heavy commissions by way of evading the operation of the usury law. So depressed were the public funds, that Mr. Pitt, finding there was no prospect of obtaining a loan by contract in the usual way, except at an enormous sacrifice, resorted to the expedient of a loan by subscription from the public to the amount of 18,000,000*l* It was called the Loyalty Loan, and books were opened at the Bank for the purpose of receiving subscriptions on the following terms.

Subscriptions opened 1st December, 1796, and closed on the 5th.

"For every 100*l.* advanced, 112*l.* 10*s.* 5 per cent, irredeemable till the expiration of three years after the 5 per cent existing at the time this loan was made shall have been redeemed or reduced: with an

* Vol. I. p. 200.

option to the proprietors to be paid at par, on giving three months' notice at any period not less than two years from the conclusion of a definitive treaty of peace, in money or in 3 per cent valued at 75."

The subscription was filled in three days; but favourable as the terms were to the subscribers, the loan was at a discount for some time after it came out.*

Now what was the state of things in 1811, that in order to restore the exchanges to par and to bring in gold, should have required less effort than was found ineffectual in 1795 to resist the tendency to a fall in the exchanges?

I have already alluded to the extreme degree of commercial distress and discredit which prevailed in 1810; a detailed account of it is given in the earlier part of this work†; and I will here only repeat the brief general description which I have there given of the state of things in the commercial world at that time.

"So many circumstances on so large a scale, combining in the same direction, the fall of prices, the reduction of private paper, and the destruction of credit, were greater and more rapid than were ever before, or have since been known to have occurred within so short a space of time. A general dismay prevailed throughout nearly all branches of trade during the last six months of 1810 and the first few months of the following year."

Seeing that this was the state of things at the period referred to by the reviewer, I would ask whether it is conceivable that the Bank could then

* Credit continued to be much restricted for a considerable time afterwards; and the next loan was contracted on still more unfavourable terms, viz.: —

Loan for 17,000,000*l.* — 1798.

For every 100*l.* advanced, 150*l.*, 3 per cent. consols; 50*l.* 3 per cent. reduced, and 4*s.* 11*d.* annuity for 61¾ years.

† Vol. I. p. 303.

have taken measures for *forcibly* reducing its liabilities by contracting its loans and discounts, with a view to restore the exchanges. There can be but one answer. Such an attempt, at that time, would have been an intolerable aggravation of the prevailing commercial distress and public difficulties; and Government, if not so disposed of its own accord, would have been forced by the public voice, to interfere.

The Bank, on the contrary, was enabled, by the existence of the Restriction Act, to relieve the distress as much as could be done consistently with its rules. The Directors extended their discounts very considerably in 1810; and a strong presumption that they thus only filled the vacuum in the circulation caused by the numerous failures of the country banks is afforded by the circumstance, that coincidentally with the large discounts in 1810, the exchanges rose, and the price of gold fell to 4*l.* 4s towards the end of that year, while the prices of commodities experienced a very considerable fall.

With regard to the effects on our financial state, the reviewer observes, that had the Government been obliged to borrow and to pay in gold, the national debt would now be less by many millions. This may well be questioned. The contrary would be the more reasonable conjecture. I have already shown the depressed state of public securities, and the disadvantageous terms on which, consequently, the loan of 18,000,000*l.* in 1796 was contracted; and I have no doubt that the difference of the rate of interest at which a loan must have been contracted in the case supposed in 1811, compared with that at which it was actually concluded, would have been little, if at all more favourable, and would consequently have entailed an increased rather than a diminished burthen from it at this time.

Section 9. — *On the alleged excessive Issues by the Bank*, 1808—1814; *and on the Distinction between small and large Notes.*

Mr. Senior, in giving credit to Lord King for having in 1803, pointed out, as the consequences of the Restriction Act, the dangers which burst upon England between 1808 and 1814, thus describes them:—

"At length the dangers which Lord King had pointed out, burst also upon England. The bad harvests of 1808, 1809, and 1810 — the vast foreign expenditure of the Government — the exclusion of British manufactures from the Continent, and of British shipping from the continental ports — the enormous freights and insurance at which we were forced to import in foreign bottoms — the sudden opening of the South American markets, and the mistakes of our merchants as to the extent and the nature of the new demand — these causes created an amount of speculation, of failure, of discredit, and of commercial embarrassment, which had never been incurred before, and is not likely to be ever undergone again. The interest of money rose, and the Bank, following their routine, went on increasing their discounts. Their private securities, consisting almost exclusively of discounted bills, on the 29th February, 1808, were 13,234,569*l.*; at about which amount they had averaged for the previous six years. They now rose as follows: —

31st August, 1808,	- -	£14,287,696
28th February, 1809,	- -	14,374,775
31st August, „	- -	18,127,597
28th February, 1810,	- -	21,055,946
31st August, „	- -	23,775,093

The issue of notes exhibited a nearly proportional increase. On the 28th May, 1808, it was 16,899,970*l.*, being also about the average of the previous six years. It rose as follows: —

27th May, 1809,	- -	£18,252,780
26th May, 1810,	- -	21,073,580
31st August, „	- - -	24,446,170

The price of gold rose, in the beginning of 1809, to 4*l.* 11*s.* an ounce. The exchange on Hamburgh sunk from 35*s.* 5., its

rate in July, 1808, to 26*s.* 6., its rate on the 28th December, 1810, and that on Paris, from 23. 16. to 19. 8." (Pp. 23, 24.)

The description here given of the circumstances existing at that time would amply account for the depression of the exchanges and the rise in the price of bullion, without ascribing these effects to the conduct of the Bank as an originating cause; and the statement of the progressive increase of the securities, and of the circulation, is calculated, if unexplained, to convey a very erroneous impression of the working of the Bank system under the Restriction Act.

The figures are correctly given; and, viewed in connection with the facts, the great increase of private securities serves to illustrate an observation which I have more than once had occasion to make in reference to this subject: namely, that applications to the Bank for extended discounts occur rarely, if ever, in the origin or progress of extensive speculations in commodities. These are entered into for the most part, if not entirely, in the first instance, on credit for the length of term usual in the several trades; thus entailing on the parties no immediate necessity for borrowing so much as may be wanted for the purpose beyond their own available capital. This applies particularly to speculative purchases of commodities *on the spot*, with a view to resale. But these generally form the smaller proportion of engagements on credit. By far the largest of those entered into on the prospect of a rise of prices are such as have in view importations from abroad. The same remark, too, is applicable to the export of commodities, when a large proportion is on the credit of the shippers or their consignees. As long as circumstances hold out the prospect of a favourable result, the credit of the parties is generally sustained. If some of them wish to realise, there are others, with capital and credit,

ready to replace them; and if the events fully justify the grounds on which the speculative transactions were entered into (thus admitting of sales for consumption in time to replace the capital embarked) there is no unusual demand for borrowed capital to sustain them. The term speculation, in its obnoxious sense, is not, in such cases, applied to the transaction; and the parties engaged have the credit of superior sagacity.

It is only when, by the vicissitudes of political events, or of the seasons, or other adventitious circumstances, the forthcoming supplies are found to exceed the computed rate of consumption, and a fall of prices ensues, that an increased demand for capital takes place; the market rate of interest then rises, and increased applications are made to the Bank of England for discount.

The whole process is strikingly exemplified in the figures here given. It was in 1808, and the early part of 1809, that speculations in purchases of commodities on the spot, and in orders for imports from abroad, and in exports to newly-opened markets, were entered into on a most extensive scale. The grounds on which these were entered into have been described at some length in a former part of this work (Vol. I. pp. 272–9.), and the table which I have given (at p. 113 *antè*) exhibits the prodigious fall of prices which commenced in the spring and summer of 1809, and continued into the spring of 1811. Now it will be seen, by reference to the amount of private securities held by the Bank, that the increase of them was coincident with the fall of prices. A part of the very great increase observable in August, 1810*, was the consequence of extensive

* In order to save the trouble of reference to a former volume of this work, I here transcribe a part of a note at page 365. of Vol. I.

"Mr. Manning, a director of the Bank, and member of parliament, when replying to some observation in the House

failures which were just then occurring among the country banks. If the reviewer had continued the figures for the succeeding twelvemonths, it would be seen that, when the emergency and the pressure on credit subsided, the securities declined to within a trifle of what they had been at in 1808. Thus they were reduced:—

February, 28th, 1811, to £ 19,920,550.
August, 31st, 1811, to 15,199,032.*

The reviewer observes, that the notes exhibited a nearly proportional increase; but it should have been added, that a proportional variation between the amount of private securities and of the note circulation is rather the exception than the rule. In this instance, the increase of the note circulation is accounted for by the circumstance, already mentioned, of the extensive failures of the country banks causing a vacuum in the circulation requiring Bank of England paper to supply it, in part at least; less being wanted in consequence of the great fall of prices. And in proof that this increase of Bank of England notes was not a case of excessive issues, causing depreciation, there is the fact that simultaneously with it the exchanges rose and the prices of bullion fell. The prices of commodities, likewise, were falling rapidly.

There is, moreover, a fallacy in the view presented of the increase of the note circulation, by taking the

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of Commons on the Bank circulation, 8th December, 1812, said, 'In July or August, 1810, it would be remembered that the number of notes in circulation was about 25 millions. But this excess was occasioned by the failure of two large houses in London, which produced a considerable sensation in the country. Bankers, in the various principal towns, then made demands upon the Bank to insure themselves against a run upon their firms; *but within six months the greater part of three millions was returned to the Bank of England without having been employed.*' "

* In February, 1813, the private securities were only 12,894,324*l.*

total amount, without distinguishing the notes under 5*l.* The distinction referred to is of the utmost importance in discussions of this kind; and the suppression of it is a favourite practice with the Birmingham School, whose constant purpose it is to lead to the inference of a more abundant circulation having existed during, than after, the suspension. There can be no doubt that the notes under 5*l.* served almost exclusively as substitutes for the coin that was exported, and hoarded. The increase, therefore, of that portion of the circulation ought not to be considered as added, but rather as replacing what would otherwise have remained in use. In the instance under consideration, the comparison would stand thus:—

	5*l.* and upwards.	Under 5*l.*
31st August, 1808,	12,993,020*,	4,118,270.
31st August, 1810,	17,570,780	7,223,210.

But while the small note circulation continued to increase till it reached 9,000,000*l.* and upwards, the notes of 5*l.* and upwards were *reduced*, 31st August, 1811, by nearly 2,000,000*l.*, namely, to 15,692,490*l.*, and did not again reach 17 millions before the end of the war. And here it may be observed, that while the retail trade required a progressively increasing amount of Bank of England notes, the immensely increased transactions, financial and commercial, in the interval of four years following, were conducted through the medium of a diminished amount of the larger notes.

Before quitting this topic I would notice, as connected with it, Mr. Senior's remark upon

* This amount is less by two millions than it had been on the 31st August, 1807, and *less* by the very large sum of 3,764,000*l.* than it was on the 31st August, 1806. See also note at p. 126, *antè*, where it is stated, that of the amount issued in August, 1810, about three millions returned to the Bank without having circulated at all.

what he terms the wild course of the Bank in increasing its issues until, as was the case in 1814, they amounted to nearly 29 millions, and gold rose to 5*l.* 10*s.*

Here the omission to distinguish the small notes causes the view to be most fallacious and exaggerated. The total amount on the 31st August 1814 was 28,368,290, of which 18,703,210 were of 5*l.* and upwards, and 9,615,030 under 5*l.*

And there is a very material error in the passage above quoted, where it is said that the price of gold rose to 5*l.* 10*s.* The context leads directly to the inference that the rise of price was coincident with the increase of the circulation. But this is the reverse of the fact. The price of gold was at 5*l.* 10*s.* on the 28th February 1814; but the gross amount of the circulation was then only 24,801,080*l.* or 3 millions and a half less than in August following; and coincidently with the subsequent increase of the circulation the price of gold fell rapidly. On the 19th July it was quoted at 4*l.* 12*s.*

SECTION 10.—*On the Re-adjustment of the relative values of Gold and Paper between* 1814 *and* 1819.

Mr. James Deacon Hume has blamed the conduct of the Bank in 1814, in having then greatly extended its securities and circulation. I do not justify it. I think that both the Government and the Bank acted injudiciously: the one in requiring, and the other in granting, a large increase of advances on Exchequer bills immediately after the peace of 1814. But the effect was only that of retarding the final improvement of the value of the paper And it is among the innumerable instances of the nonsense that has been talked about the restriction, and the resumption of cash payments, that in the

great majority of pamphlets and speeches on the subject it is affirmed, or taken for granted, that a preparation, on the part of the Bank, for the resumption of cash payments, commenced with the peace in 1814, and was the principal *cause* of the fall of prices which then took place; whereas the blame really attaching to the Bank, at the period referred to, is for not having made any preparation whatever with that view.

The highest quotation of gold was 5*l.* 11*s.* at the close of 1813. At the nearest date of that year on which there is any account of the amount of the circulation (November 27) it was (exclusive of the notes under 5*l.*) 15,775,640*l.* In February 1814 it was 16,455,540*l.*, and standard gold was then quoted at 5*l.* 8*s.*, and silver at 6*s.* 11½*d.* per oz.

It is also important to observe, that when the price of bullion was at the highest point, the securities were scarcely, if at all, increased in amount. On 31st August 1813 they amounted to 40,105,000*l.*, and the price of gold was then 5*l.* 10*s.*; at the close of 1810, when gold was at 4*l.* 4*s.* an ounce, the securities were 40,973,000*l.*, and in August 1814, when the price appears to have been also 4*l.* 4*s.*, they were 48,345,000*l.* These opposite movements of the two phenomena may reasonably excite some doubt as to the accuracy of the hypothesis which regards them as mutually dependent.

In October 1816 the price of gold had fallen to 3*l.* 18*s.* 6*d.*; and that it had not fallen to the Mint price was only because the Bank had fixed this as its minimum rate. That gold might have been had at the Mint price of 3*l.* 17*s.* 10½*d.* can hardly be doubted, because, at that time, the price of standard silver was 4*s.* 11½*d.*, and the exchange on Hamburgh 37. 10. to 38., and on Paris 26. 10. The amount of Bank notes on the nearest dates was, on August 30th, 1816, 17,666,510*l.*, and on 20th February, 1817 *, 19,261,630*l.*

* The late Mr. Samuel Turner, formerly a director of the

Hence it appears that this re-adjustment, for it was completely such, of the value of the paper, took place without the slightest observable effort on the part of the Bank to reduce its securities or circulation with that view. Gold was flowing in largely, and the bullion in the Bank had, by August, 1817, reached the large amount — then without precedent — of 11,668,266*l.**

There can be no doubt that the Bank was then in a condition to have resumed cash payments; and, indeed, it did actually make a beginning, by issuing sovereigns in exchange for its smaller notes. In the very able report of the Lords' Committee on the Resumption of Cash Payments, the following statement is made of the expectations entertained by the Directors at that time that the

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Bank of England, in a pamphlet published in 1822, in which he had occasion to remark upon a statement by Mr. Ricardo, in his pamphlet "On Protection to Agriculture," referring to the amount of Bank notes in circulation, observed, "It is true I have placed out of consideration the years 1817 and 1818, and I have done so, because it would be inconsistent with any degree of fairness to calculate upon those years as showing the extent of the demand for Bank notes. It is quite notorious that in those years† a large number of country banks failed, and a run took place upon many of the most respectable establishments; so that they were obliged to convert a considerable portion of their floating securities into Bank notes, in order to guard against a sudden panic. It has so happened, however, that many of the notes issued in those years from the Bank, in consequence of this unusual demand, never got into general circulation, and, in many instances, they have been returned precisely in the same state they went out of the Bank, without having passed into any other hands than those of the country banker and his town agent." — (*Consideration, &c. by Samuel Turner, Esq., F. R. S.,* pp. 41, 42.)

* The circulation being then 29,503,000*l.*: nearly the highest amount attained by the outstanding notes of the Bank of England.

† I rather think that Mr. Turner's remark cannot apply to 1818, because the discredit and failure of country banks did not extend beyond the summer of 1817.

resumption of cash payments would take place prior to the period then fixed by Parliament, viz., the 5th of July, 1818.

"The Bank more than doubled its treasure during the last eight months of 1815, and the fall in the price of gold and the favourable turn of the exchanges enabled the Directors to raise it by January, 1817, to more than quadruple what it had been in the beginning of 1815. At this period the Directors felt so confident of being able to comply with the injunctions of Parliament, even before the period at which the restriction was to expire, that they issued a notice for the payment in cash of all the one pound and two pound notes bearing date prior to January 1816. Finding little or no demand for cash in consequence of this notice, and their treasure having continued during the course of the year to increase to an amount far exceeding what it had ever reached, and, with few exceptions, bearing a larger proportion to the extent of their issues than it had ever borne before, the Directors issued a second notice in September 1817, for the payment in cash of all notes bearing date before the 1st January in that year. This measure has been stated to the Committee to have been undertaken in the hope that if it proved successful, that is, if the gold so tendered were not demanded, or, if when demanded, it remained in the country, *the complete resumption of cash payments would take place gradually, and as it were insensibly, even prior to the period then fixed by Parliament,* viz. *5th July*, 1818.—(*Lords' Report*, 1819, p. 3.)

It may here, towards the close of this portion of my review of the state of the currency during the restriction, be advisable to repeat a general remark which I have had occasion to make in former parts of this work. The repetition is the more called for, because, while the facts to which I refer have a most important bearing on the question, how far the depreciation could with propriety be said to have been caused by over-issues of paper, I am not aware that any notice has been taken of them, or of the conclusions deducible from them, by those who affirm against the Bank the charge of constant over-issues.

The facts I allude to are these. That whenever there was a pause or cessation of the unusually large foreign expenditure by the government, or of

unusually large importations of corn, there was also a tendency to a restoration of the value of the paper, by a rise in the exchanges, without any contemporaneous or immediately preceding reduction in the amount of Bank notes; and that a complete restoration of the value of the paper took place in the spring of 1817, coincidently with a *larger* amount of the circulation of the Bank of England than had existed at any former period.

But, in the latter part of 1817, the large loans required by the governments of France, Russia and Austria, to which considerable sums from this country were subscribed, combined with an extensive importation of foreign corn, depressed the exchanges, so as to cause a drain upon the Bank coffers. Under these circumstances the Directors abandoned the expectation they had before entertained of being able to resume cash payments before July, 1818; and an act was passed continuing the restriction to the end of the next session of Parliament. When that period approached, the application by ministers for an extension of the period of restriction was accompanied by a proposal for a committee of inquiry by both Houses of Parliament. The result of the inquiry by those committees was the Act of 1819.

What is particularly worthy of notice is the fact, of which the events of the time, if duly regarded, leave no doubt, that but for the disturbing causes operating on the exchange in the autumn of 1817, the Bank would have resumed cash payments in 1818.

It is impossible to conceive any evidence more complete of the principle of self-adjustment of the value of the currency inherent in the management of the Bank at that period (when not exposed to the disturbance of an unusual demand for foreign payments), than is supplied by this unquestionable fact. Not an effort had been made for the purpose

by either the Bank or the Government — and the public were all the time unconscious of the process, or the effect. For whatever there may have been of distress or discredit in 1816 and the commencement of 1817 had entirely ceased before the close of the latter year, which, taken with the commencement of 1818, was considered by the Birmingham school as a period of abundant currency, and consequently of halcyon days.

Had it not been for the casual occurrence of the disturbing causes already referred to, we should have had no committees of inquiry, and no Peel's Bill of 1819. Indeed, nothing but the disinclination of Lord Liverpool's government, at the commencement of the session of 1819, to apply for a further prolongation of the Restriction Act without inquiry, prevented the resumption being a spontaneous, or rather a necessary, consequence of the state of things at the close of 1819. In August of that year the price of gold was 3*l.* 17*s.* 10½*d.*; the price of standard silver 5*s.* 2*d.*, and of dollars 5*s.* per ounce; and this without the smallest effort on the part of the Bank or of Government. The proof of it is this. The only part of its position on which the Bank can operate, as is now well understood, is the amount of its securities. These stood —

		£	£
1817, Aug. 30.	Public	27,098,238	
	Private	5,507,392	
			32,605,630
1818, Aug. 30.	Public	27,257,012	
	Private	5,113,748	
			32,370,760
1819, Aug. 31.	Public	25,419,148	
	Private	6,321,402	
			31,740,550

Is it possible to conceive any thing more equable

in the management of the Bank, or in the requirements of the Government for accommodation, than is shown in this statement? Although in the intermediate time the exchanges had fallen, and there had been a great drain on the coffers of the Bank, and the price of gold had risen to 4*l.* 3*s.* for a short time, yet, immediately upon the cessation of the disturbing causes, the tide of the precious metals turned, and the tendency to influx in the two following years was fully as strong as had been the tendency to efflux in the two preceding years. So strong indeed was the tendency to influx in the two years following August 1819*, that nothing short of a degradation of the standard, or a very violent effort on the part of the Bank in reducing its rate of interest much below the market rate, would have prevented or materially abated that influx. And yet there have been, and are, writers and speakers who, professing to be friendly to the principle of the Act of 1819, countenance the cry of the Birmingham school by contending that the measure was too hasty a one.

If it be objected that I have not, in the view here given of the amount of the circulation in 1819, included the country bank notes, without which, it may be said, no fair view of the operation of the Restriction Act on the amount of the currency can be taken, my answer is—that the issues of country notes,

* Bullion:—

31st August, 1819, - -	£3,595,360
31st August, 1820, - -	8,211,080
31st August, 1821, - -	11,233,250

But the Bank had, in 1821, anticipated the requirements of the Act of 1819, by which it was not obliged to pay in gold, except by progressive stages, till 1823, and began paying in coin in May, 1821. The issue of sovereigns by the Bank, from May to August, 1821, inclusive, amounted to 5,657,053*l.*, which makes the whole *influx* in the two years, to 31st August, 1821, 13,295,283*l.*

during the whole period of the suspension (as regards the provincial banks in Great Britain, and, after 1804, as regards the banks in Ireland) were limited as completely by the notes being convertible at the will of the holder into Bank of England notes, as the Bank of England notes were before the Restriction, and have been since 1819, by their being convertible into coin. This point cannot be fortified by higher authority, or expressed in clearer language, than is found in the following passage from Mr. Huskisson's pamphlet before referred to.

"A country bank, from its being liable at all times to pay its notes in those of the Bank of England at the option of the holder, is placed precisely in the same situation by this check upon the amount of its issues as the Bank of England itself was by the necessity of paying in guineas before the Restriction;" and again, "the circulation of Country Bank paper being therefore in *exact proportion* to that of the Bank of England, it follows," &c.

But admitting that the country note circulation had undergone a diminution in more than its usual proportion to that of the Bank of England, it is still clear that such relative reduction had no reference whatever to any preparation for cash payments. Nor was it caused by any contraction of accommodation by the Bank of England.

SECTION 11. — *On the uniform Coincidence of the Periods of improved Exchanges and diminished foreign Expenditure.*

The remarkable and uniform coincidence of the variations in the state of the foreign exchanges with the course of the Government continental expenditure, the importations of grain, and the other

causes which violently interfered with the ordinary state of the foreign commerce of the country, bears so intimately upon the controverted question of depreciation of the paper from excessive issue, that I am induced to allude to it at further length.

I subjoin a tabular summary of the periods of comparative depression and recovery of the quotations on the principal foreign places, and I venture to affirm that in every instance here given (and the whole period of the operation of the restriction is embraced in the table), there are abundant means of fully accounting for the phenomena upon purely mercantile grounds.

DEPRESSED.	Years.	Months.	RESTORED.	Years.	Months.
1794 May to 1796 May	2	0			
			1796 May to 1799 June	3	1
1799 June to 1802 April	2	10			
			1802 April to 1805 Oct.	3	6
1805 Oct. to 1805 Dec.	0	2			
			1805 Dec. to 1808 Sept.	2	10
1808 Sept. to 1811 Jan.	2	4			
*1811 Jan. to 1812 Jan.	1	0			
1812 Jan. to 1814 May	2	4			
			1814 May to 1815 March	0	10
1815 March to 1815 July	0	4			
			1815 July to 1817 Nov.	2	4
1817 Nov. to 1819 Feb.	1	3			
			1819 Feb. to 1825 Jan.	6	0

* The year 1811 was that in which the depression was greatest, and it is important to bear in mind, that at the periods of the most depressed quotations, the transactions were so few, so irregular, and for sums so insignificant, as to form no fair criterion for judging of the relative value of the currencies. In point of fact, it can hardly be said that at that time there

Further, the negative proof afforded by mercantile considerations is confirmed by the positive evidence that these expansions of the circulation, and those operations of the Bank which are described as "occasioning" the fall of the exchange could not have had any such consequence, unless it can be shown, that the date of a cause may be subsequent to the date of its effect.

The evidence upon which this statement rests, is so easily accessible in the valuable Appendices to the Reports of 1819, and the Bank Charter Report of 1832, that I may safely spare the patience of my readers the task of accompanying me through an examination of every case, and content myself with one or two leading examples.

Thus, to take the severe depression which occurred between June 1799 and April 1802—what are the facts? There was, in the first place, in the two years 1800 and 1801, an importation of grain to meet the deficiency of our own very deficient harvests to the extent of nearly *twenty millions* sterling. The precise figures were:—

Years.	Estimated Cost of Grain imported.	Yearly average Price of Wheat.
	£	*s.* *d.*
1800	8,755,955	127 0
1801	10,149,098	128 6

Then there was a considerable continental expenditure in the year 1800, and also, though upon a less scale, in 1801. It is unfortunate that

was any exchange business, properly so called, with Germany or France. There was no communication by post; the only intercourse was by bye-boats chiefly employed in smuggling, and the transmission of letters and documents by them was attended with great uncertainty, difficulty, and hazard.

no official documents have hitherto appeared which enable us to state precisely the magnitude of that expenditure. Now, the decisive fall in the exchange took place in the summer of 1799, when the amount of the Bank circulation had been remarkably stationary, and the extent of the private securities had been actually diminishing, during the preceding year and a half; as the following account will show: —

CIRCULATION.		PRIVATE SECURITIES.	
Dates.	£5 and above.	Quarters ended.	Average Amount.
	£		£
28 Feb. 1798	11,647,000	31 March 1798	5,077,000
31 Aug. 1798	10,639,000	30 June 1798	4,099,000
28 Feb. 1799	11,494,000	30 Sept. 1798	4,337,000
31 Aug. 1799	12,047,000	31 Dec. 1798	4,448,000
		31 March 1799	4,618,000
		30 June 1799	4,162,000

It is true that when the difficulties arising out of the adverse balance of payments had fairly set in, the advances by the Bank were greatly increased. But that circumstance does not in any way help the argument of the ultra-bullionist party. They have to show that these expansions took place *before* and not *after* the fall in the exchange.

I may next refer to the important and prolonged recovery of the par of exchange, and the price of gold, which took place between April 1802 and September 1808, and which was only interrupted for about two months at the close of 1805, by subsidies to Austria and Russia. During the whole of this period, the importations of corn were on a very limited scale; our continental government expenditure was also moderate, because the

character of the war was decidedly naval rather than military; the impediments to commercial intercourse were not greater than in former periods of war; and the yearly subsidies to foreign powers were not large. These circumstances appear to be quite sufficient to account for the steady character of the exchanges, and the undisturbed prices of the precious metals. And yet, during the whole of this period, the private securities were, on an average, about *four* millions higher than in 1800 and 1801, and the circulation was undergoing a gradual expansion.

The facts connected with the great and continuous decline of the exchanges, and the important rise in the price of gold which took place in the autumn of 1808, are equally conclusive. It was in the summer of that year that the first opening occurred for opposing the enemy in the Peninsula; and the effect of the enormous expenditure then incurred in the maintenance of the troops and the provision of military chests was almost immediately perceptible in the quotations of the exchange and the price of gold. There were also considerable importations of corn in 1809 and 1810. Mr. Vansittart, in the Appendix to his Speeches of 1811, states the expenditure and the cost of corn to have been as follows* :—

Years.	Foreign Expenditure.	Cost of Corn imported.
	£	£
1808	9,552,000	336,460
1809	10,235,000	2,705,496
1810	12,372,000	7,077,885

But, besides these direct causes, there was an

* These figures have been already noticed by me (Vol. I. p. 352.), but I insert them again for facility of reference.

indirect cause of depression in existence, scarcely less powerful. I allude, of course, to the very serious, and in many instances complete, impediments to the commercial intercourse between Great Britain and the Continent, which arose out of the Berlin and Milan Decrees of Buonaparte, and our own Orders in Council.* These are the circumstances referred to by Mr. J. D. Hume in the passages already given from his Pamphlet. (*See antè*, p. 106.) The difficulty was not merely that we were importing an extra quantity of corn, and remitting an enormous amount for our foreign expenditure, but that there was also the physical impossibility, in many cases, of obtaining admission into any part of continental Europe for the merchandize intended to balance the claims against us.

It will be worth while again to extract the figures which prove that the great fall of the exchange in 1808 could not arise from any previous over-issue of notes or lavish extension of discounts:

CIRCULATION.		PRIVATE SECURITIES.	
Dates.	£5 and above.	Quarters ended.	Average Amount.
	£		£
30 May 1807	12,320,000	30 June 1807	13,572,000
28 Nov. 1807	11,678,000	31 Dec. 1807	12,991,000
28 May 1808	12,982,000	31 March 1808	13,009,000
26 Nov. 1808	13,462,000	30 June 1808	12,369,000
		30 Sept. 1808	13,182,000

I do not know that it is needful to pursue the subject further, or I might refer to the conclusive

* The Berlin Decree was dated 21st November, 1806, that from Milan on 17th December, 1807, and the more important Orders in Council on the 11th and 21st November, 1807. The American embargo appeared on the 22d December, 1807.

nature of the facts connected with the period from 1812 to the close of the war; but, beyond adducing one or two of the more remarkable of them, I feel that I may safely leave this part of the subject to be elaborated by other hands.

It was during the year 1813 that the price of gold reached its highest point, and that the exchange, after 1811, was the most depressed. The following figures, compiled from the Commons' Report of 1819 (Appendices 23 and 44), will convey some idea of the prodigious extent of the disturbing causes then in action.

Years.	Bills on the Treasury.	Paid by Commissariat.	Coin, &c. remitted by Government.
	£	£	£
1813	19,092,521	2,724,792	3,371,825
1814	20,932,326	5,562,701	1,410,141
1815	9,108,892	11,019,225	2,182,014
1816	4,881,072	2,921,284	58,148

Without committing myself to the assertion that the price of gold, at this time, invariably rose and fell with the extent of the Government demand for coin and bullion for remittances, I may observe, that during the four years above referred to (1813—1816), there is a very close correspondence between the magnitude of the Government purchases and the published market prices.

CHAPTER II.

THE PERIOD FROM 1819 TO THE CLOSE OF 1847.

SECTION 1. — *On Sir Robert Peel's Speeches of May 1844.—The rationale of a fixed metallic standard.*

I HAVE given the foregoing sketch of the controversy upon the state of the currency and the causes influencing it, as it existed during the period of the Bank Restriction, because it appears to me, that the subject is very imperfectly understood by the majority of those who have taken part in the discussion to which the Act of 1844 has given rise, and that it is wholly unknown to the greater part of the public who have, or fancy that they have, an interest in the question. A review of the various phases of the currency question since the resumption of cash payments will naturally come under consideration in the examination which I now propose to enter upon of the grounds on which the new Banking Act was brought forward and passed.*

The measure was introduced into the House of Commons by Sir Robert Peel, on the 6th May, 1844, when he made an elaborate speech explanatory of the views by which he had been influenced in bringing it forward; and on the 20th, when

* One of these phases, indeed—that, namely, which arose on the remarkable (but, as regards the currency, purely accidental) coincidence of a general fall of prices with the resumption of cash payments (1819–22)—and a misapprehension of which gave rise to what is now termed the Birmingham School — I have dealt with so fully in the previous volumes of this work, that I cannot but deem further reference to it unnecessary.

moving the House to go into committee on the bill, he went into a further explanation of the principles on which it was founded.

There were two distinct objects proposed by the bill: the one to secure the general solvency of banks, whether issuing or non-issuing; the other to restrict the amount of notes in circulation of all issuing banks, those of Ireland and Scotland excepted*, but inclusive of the Bank of England.

Now these very distinct purposes are unfortunately blended and confounded in Sir Robert Peel's Speech. Whether this proceeded from a consciousness on his part that his case was weak, and was, therefore, an adroit mode of evading a difficulty, or from an indistinct view of his subject in its general bearings, it detracts very much from the merits of the exposition. The Speech is altogether very imperfect and confused,—most unlike the luminous exposition of which upon many important occasions he has shown himself capable.

Sir Robert first addressed himself to pointing out the errors of the Birmingham school, and may be said to have devoted an undue portion of his speech to it. But even on this, which seemed a favourite topic, he hardly did justice to the argument in favour of a metallic standard. The reference which he made to the Mint proportions between gold and silver was wholly irrelevant to the main point to be established. He was perfectly right, although he dwelt upon the point at unnecessary length, in showing that a *pound*, when speaking of a metallic standard, means a certain quantity, a definite weight, of metal of given fineness; and he justly ridiculed the notion involved in some of the definitions of a standard of value proposed by the opponents of a metallic one.

* The regulation of these having been postponed till the session of 1845, when the Irish and Scotch Bank Acts were passed.

The first was, "that a pound might be defined to be a sense of value, in reference to currency, as compared with commodities." This was the definition given in a speech by Lord Castlereagh, in 1811; and was the occasion of a cutting answer by Mr. Canning, from whose speech I have given an extract in Vol. III., p. 226.

Another of the definitions which Sir Robert Peel alluded to, without naming its author, appeared in a pamphlet by Mr. C. Bosanquet, in the following terms:—"There is a standard and there is an unit which is the measure of value, and that unit is the interest of 33*l.* 6*s.* 8*d.* at 3 per cent., that being 1*l.*, and being paid in a Bank note as money of account." This definition also was naturally exposed to ridicule.

The various arguments adduced in opposition to a metallic standard were answered in a pamphlet by Mr. Ricardo. I shall have occasion further on to notice these pamphlets, only observing here, by the way, that both Mr. Bosanquet and Lord Castlereagh, while lamentably and ludicrously in error about a standard of value, were full of information, extensive and accurate, as to the disturbing forces which, at the period to which their attention was more particularly directed, were operating on an enormous scale in depressing the exchanges.

Sir Robert Peel quotes a third definition. "The standard is neither gold nor silver, but it is something set up in the imagination to be regulated by public opinion."

These definitions are all confused and ridiculous enough; and the speaker succeeded in amusing the House with them. But in stating and proving that a standard meant a certain quantity of gold, he stopped short of showing an important distinction between two functions of money: the one, that of serving as an instrument of exchange; the other, that of being the subject of contracts for future payment. It is in the latter capacity that the fixity of a standard is most essential.

As a mere instrument or medium of exchange, at the same time and in the same place, invariableness of value, though desirable, is not of so much importance; the immediate purpose of money in this capacity being to serve as a point, or rather a scale, of comparison more convenient than actual barter between any two commodities or sets of commodities. It is in the latter capacity, that is to say, as the subject of engagements or obligations for future payment, that in every view of justice and policy, the specific thing promised, in quantity and quality; should be paid at the expiration of the term.

Thus the seller of a quantity of goods of any kind, on six months' credit of the agreed value in gold, at the time of sale, of *46l.* 14*s.* 6*d.* is, or ought to be, entitled to receive, at the expiration of the term, the specific quantity of gold coined into that sum: namely, one pound weight of a given fineness of the metal, which is the present standard. If he receives Bank notes instead of gold, it is because he prefers them for convenience.

Or suppose a person to lay out 934*l.* 10*s.* in a loan on mortgage at 5 per cent. equal to 46*l.* 14*s.* 6*d.* per annum in half-yearly payments—the rationale of the transaction is, that having the command of twenty pounds' weight of gold, he lends it on the consideration of receiving, half-yearly, half a pound of gold, and also of receiving, at the expiration of the time, the quantity, twenty pounds' weight, which he had lent; unless he should prefer, as he probably would, Bank notes or a cheque on a banker, in either case equal in value to that quantity of gold, and more convenient to him, for otherwise he would have no motive for giving it the preference to gold.

Both the seller and the buyer of the goods, and the lender and borrower on mortgage, are willing to take their chance of what the value of gold may be at the expiration of the term. It is true that gold may vary in value; but there is no other commo

dity, silver perhaps alone excepted, so little liable to vary. And there is, accordingly, no other commodity than gold, or silver, which it would suit both parties to look to for eventual payment.

Suppose, in the case of the seller and buyer of goods, that these consisted of a quantity of copper, say ten tons, which, at the agreed price on six months' credit, amounted to 934*l.* 10*s.*, it could not equally suit both parties to look to a repayment of the same quantity of copper, instead of twenty pounds of gold, which were of the exact value of the copper at the time of sale, inasmuch as that, at the expiration of the term, the price or value of copper might, as compared with all other commodities and with gold, have risen or fallen 10 or 20 per cent., and to the buyer (if a rise), or to the seller (if a fall), a loss to that extent would ensue, if the stipulation were to be by a repayment in copper. But copper is much less variable in value than iron. If the transaction, therefore, were to be in purchase of the latter article on six months' credit, the repayment, if it were stipulated to be by an equal quantity of iron, might vary in a much greater degree in the value. And still greater would be the liability to variation in value if the contract were for repayment at the end of six, or even three months, in wheat.

The case is hardly conceivable, in which it should equally suit both the seller and the buyer of any merchandize on credit, that the repayment at the expiration of any given term should be by an equal quantity of the thing sold; but it does invariably suit both parties equally that the repayment should be in a quantity of gold equal to the quantity which the subject of sale would have commanded at the time of the bargain.

So, and still more strongly, would this reasoning apply to the loan on mortgage. It could not equally suit both parties to look to eventual re-

payment in any other way, in any other commodity, or in the value of any other commodity, than gold.

The same reasoning applies, and in a still greater degree, to a payment stipulated to be made in Bank or Government notes at the expiration of six months or six years, if the notes be not payable at the will of the holder in a specific quantity of gold, or so regulated as to be equal in value to the specific quantity of the metal in which they purport to be payable.

This view of the rationale of what the Birmingham school, in their peculiar phraseology, are pleased to call the fixity of the price of gold, is explained so clearly, and illustrated so aptly, by a very accomplished writer, Mr. Bailey, in the tract entitled "Money, and its Vicissitudes in Value," that I am glad to be relieved from the necessity of urging further arguments or illustrations of my own, by laying before the reader the following extract from that work:—

"The simplest pecuniary contract which is entered into, and which may be considered as virtually representing all others, takes place when one man lends another a sum of money to be returned to him at some future period, as for instance at the end of twelve months.

"In this case the nature of the transaction is really this: The lender grants the use of a certain number of pieces of metal of given weight and fineness during a definite period, on condition that an equal number of pieces of the same weight and fineness, shall be restored at the expiration of the time. If we simplify the matter by putting aside the consideration of the circumstances attaching to coin, which are not essential to our purpose, it is the loan of a definite quantity of gold or silver on condition that an equal quantity be returned.

"Now, let it be observed, that there is here no question of *value*, or what quantity of commodity or set of commodities the gold will command in exchange. This has no part in the contract. The agreement respects the quantity and not the *value* of the gold; it has nothing to do with the purchasing power of gold in the market. The owner of the gold allows the borrower the use of the metal just as the owner of a spade or a plough might lend the implement to a neighbour, on condition of its being restored in the same state. It is true the owner of the gold does not require the return of the same

identical pieces of metal as the owner of the spade would probably insist on the restoration of the identical spade; and for the reason before mentioned, that one pound of gold is precisely like another, or one piece of good money resembles in every respect others of the same denomination, and therefore, to exact a return of the pieces actually lent would be perfectly useless to the lender, while it would be incompatible with the object for which all money is borrowed, viz. the power of transferring it to some one else. Should the transaction be somewhat more complex—should there be a stipulation that interest should be paid for the use of the money—still the nature of the contract would remain the same. It would be merely requiring that in addition to the restoration of the original quantity of gold a certain smaller quantity should be given to the lender for its use. There would still be no consideration—no question about value—but simply about quantity. The bargain would in no respect differ from one which had wheat for its subject instead of money, or a spade, or a plough. It would be an analogous case if one farmer lent another a plough on condition of receiving back not only the plough but a new handle or a new share.

"This is a correct representation of the nature of all mere pecuniary bargains, whether loans or annuities, and it is so particularly desirable to notice that in such bargains the question is not at all of *value* but of *quantity*, that the reader will pardon a little repetition. When I lend a sum of money I make no reference at all to its *value*—that is, of the relation of money to other articles—I never think of them; I stipulate only for the return of the quantity of money lent, along with such an additional quantity for its use as may be agreed upon. If I referred to the value of the sum lent, it would be necessarily its value in some one thing or in several things, and then my bargain would be in effect for a return of certain quantities of these things. We must come to a *quantity* of something at the last.

"*A steady application of this simple principle would remove many of the difficulties which are generally considered to embarrass this question.*

"It is true that contracts may be made which shall have reference to the value of gold or silver as well as to its quantity; and in some cases very properly. I may with great propriety stipulate, that, inasmuch as the 100*l*. which I lend when wheat is at 50*s*. per quarter is equal to forty quarters of wheat, the value of forty quarters of wheat shall be returned to me when the loan is repaid. In effect this is, as already remarked, lending the wheat. In the same way any other commodity may be lent, or any other stipulation may be made. The freedom of bargains is and ought to be quite unrestricted; but, where no express condition of this sort is made, the contract amounts to

what I have before stated it to be, *a loan of quantity without reference to value,* and the loan is fully repaid when the original quantity is restored, with the additional portion contracted for as interest. This is the only construction that can be put upon a pecuniary contract; for if any one insists that it is a contract for a certain value, he is bound to show in relation to what commodity this value is to be, and then the matter would be reduced into a bargain for a quantity of that commodity. Thus he would be maintaining that a pecuniary contract does not relate to a quantity of money as expressed on the face of it, but to a quantity of some commodity of which no mention is made. This view is undoubtedly very different from that which has been frequently entertained. It has been usually assumed that in cases of loans an injustice is committed if the same value is not restored, as well as the same quantity. It has been considered, that is to say, that the sum paid back should enable the owner to command neither more nor less than the quantity of commodities in the market which he could have commanded when the money was originally lent.

"How far this might be a desirable circumstance, if it could be effected, is questionable; but it is certainly not required by justice or equity. It is not just that the man who borrows a spade from another when it is *5s.* in price, and restores it when it is *2s. 6d.* should be obliged to return two spades, unless a special agreement to that effect has been made. Neither can it be just that a man who borrows a pound of gold should be obliged to restore two pounds, on the ground that a pound of gold will, at the time of payment, purchase only half the quantity of wheat or other commodities that it could have purchased when the loan was advanced.

"The matter would be perfectly plain if the use which is made of gold permitted the identity of the individual pound borrowed to be preserved. No one in that case would think of any thing more than the restoration of the original gold. An instance closely analogous occurs when, as is by no means uncommon, a service of plate is lent by one individual to another for a specified compensation. The lender, on receiving back his plate at the end of a dozen months or a dozen years, would make no claim on account of the altered relation of the metal to other commodities. All that he would look for would be the restoration of the original articles in an uninjured condition."—(*Money and its Vicissitudes in Value;* pp. 100—105, by the Author of a Critical Dissertation on Value, &c. 1837.)

It will be observed that this view of the rationale of pecuniary contracts constitutes an insuperable objection to what is called a double standard of gold and silver.

In the interval between Sir Robert Peel's two Speeches of the 6th and 20th of May there had been some criticisms on the former. These were contained in an article of *The Times* newspaper.* They were noticed by Sir Robert, in his second Speech of the 20th of May. "I am told," he said, "that my chain of argument the other night was incomplete; that there was no necessary connexion between my premises and my conclusions;

* In the 2d edition of my pamphlet "on the Currency Principle," which had been published and was in the hands of some of the Members on the day of the debate of the 20th May 1844, I introduced an extract from the article in the *Times* in the following terms:—

The policy in pursuance of which the measures of government were proposed was developed in a speech on the 6th of May of some length by Sir Robert Peel. The merits of that speech have been described in a manner perfectly accordant with my estimate of them in a leading article of the *Times;* and as, agreeing in the view thus taken, I should fail of conveying it in language of my own so characteristically clear and appropriate as that in which it is there expressed, I am induced to give the following extract, premising that in the part immediately preceding, the proposed arrangements are spoken of as meeting with general approbation, in which the writer of the article concurs.

"Sir R. Peel's speech was, we think, scarcely so good as his propositions. His premises were excellent; his conclusions admirable: all that was wanting was a connection between the two. The speech failed precisely in that which he professed, with some parade to have accomplished. It failed in developing clearly the principles on which the proposed changes were based. It had a beginning and ending, but seemed to have lost its middle in the delivery. He laid his foundations deep and palpable in the gold mines of Mexico; his towering results are those which have long furnished a landmark to the sagacious speculator on agios and exchanges; but there was a large intervening space of impenetrable and unmeaning cloud, displaying no visible or intelligible form to any imaginations but those which have already mastered the intricate and perilous ground which lies beneath. Sir Robert Peel expends much time in a true, ingenious, and very complete demolition of the Birmingham financiers. One-third part of his speech is occupied in showing that gold the money of this country is, and that gold it ought to remain—an exposition which, how-

that I did not show the necessity of interfering with the circulation of joint-stock banks or country banks; that I did not establish the policy of giving

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ever valuable in itself, might, we think, without any serious loss to the argument, have been deferred till it was more distinctly called for. He proceeded to prove that an interference with promissory notes, which were the substitutes for gold, did not involve him in the necessity of meddling with bills of exchange or checks upon bankers—that convertibility was not alone a sufficient guarantee against over-issue—that country bankers did not regulate their issues by the foreign exchanges—and that a government bank was politically dangerous. Thence he unceremoniously leapt to his practical conclusions. 'This brought him,' he said, 'to an explanation of the practical measures which he proposed for the regulation of the matters he had submitted to the consideration of the House.'

"These measures we have said are just and sagacious; but they are scarcely justified by the speech by which they are introduced. The local banks of issue, for instance, are to be extinguished. Why? We gather from Sir Robert Peel's speech that it is because 'they do not control their issues according to the state of the foreign exchanges.' And why should they so control them? Because the omission to do so is the cause of over issue. And how so? Alas, in this, the very heart and root of the question—the moot point of the whole—Sir Robert leaves us in the dark. The connection between foreign exchanges and English circulation is an interesting and most important subject; it lay directly between Sir Robert Peel and his conclusion—nay, was the very ground on which that conclusion rested; and though to a certain extent intricate, is not too abstruse to be handled briefly and conclusively by the first financier of the day. Why, instead of grappling with it, did he spend time in proving what none but a few enthusiasts deny—the inexpediency of a return to paper payments? Equally chary is he of reasons for the proposed separation of the issue and deposit departments of the Bank of England. Those indeed who are familiar with the opinions of the principal mercantile men of the day, or have even mastered the leading pamphlets on those subjects, will be at no loss to divine the principles on which he is proceeding. But this does not meet the wants of the wholly ignorant world, or even, we fear, of the half-informed House of Commons; and we therefore regret that such an occasion as the present has not drawn from the Premier a fuller and more instructive exposition of these views of currency on which he intends himself, and should persuade his successors, to regulate the circulation of the country."

Unquestionably it is not easy to conceive a more defective

an increased control to the Bank of England over other banks. Now, I am not conscious that any link in the chain of argument was wanting."

With all due deference to such an authority, I have now to submit some considerations which may tend to show that *there is not one link in his chain of argument that will hold to warrant his conclusion.*

Sir Robert Peel's argument, as far as the immediate purpose is concerned, must be confined strictly to the question of the regulation and limitation of the amount of the note circulation. To provide for the solvency of banks, whether issuing or non-issuing, is a totally different question, although Sir Robert Peel, for the purpose apparently of producing an effect, thought proper to dwell upon the horrors of insolvent banks as a prominent reason for *restricting the amount of the circulation.* This question of insolvency is a point to which I shall have occasion to advert hereafter. In the mean time it cannot be too strongly enjoined on the reader not for a moment to lose sight of this distinction, which Sir Robert seems constantly intent upon escaping from.

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or less instructive exposition of views which were destined to have so important a practical application.

Sir Robert Peel had evidently adopted the doctrine of the currency principle in its fullest extent, according to the exposition of it by Mr. Norman and Mr. Lloyd; but in his endeavours to explain it to the House, and to show the connection of it with the measure he was proposing, he failed in a degree which is surprising in a person so gifted, and so generally clear in his statements.

The truth is, that he laboured under the disadvantage of having embraced, without sufficient examination, a theory of the currency which is not accordant with, or explanatory of, the working of the actual system, or calculated to give any distinct insight into the probable effects of the intended change; and more especially of that part of it which relates to the separation of Issue and Banking. This measure of separation, for instance, may be the best possible; but if so, it could not be admitted to be so for the reasons stated by Sir Robert Peel.— *Inquiry into Currency Principle, Supplementary Chapter, 2d edition*, page 148—151.

SECTION 2.—*On Sir Robert Peel's Definition of "Money."*

The commencement of Sir R. Peel's exposition of the principles of the Act of 1844 is, as it ought to be, with a definition of the word *money*.

This definition, among ordinary disputants, would be a mere question of language, and would involve no interest except to those who were disposed to take part in what might be deemed a scientific controversy; but, in the instance of Sir Robert Peel's definition, the case is different. *Words*, with him, were *things*. Upon his understanding and assumption of the meaning of the word "Money," he has based a great part of his argument for restraining the circulation of that description of paper credit which, in obedience to the tenets of the currency theory, he considers to come within the definition of "Money." The definition by Mr. Norman and Mr. Loyd, and their deductions from it in favour of their theory would, however questionable, be harmless; but when adopted by Sir Robert Peel, and made the ground of a legislative measure, it has been far otherwise.

"I must state," he says, "at the outset, that in using the word 'money,' I mean to designate by that word the coin of the realm and promissory notes, payable to bearer on demand. In using the word 'paper currency,' I mean only such promissory notes. I do not include in that term bills of exchange, or drafts on bankers, or other forms of credit. There is a material distinction in my opinion between the character of a promissory note payable to bearer on demand, and other forms of paper credit, and *between the effects which they respectively produce upon the prices of commodities, and upon the exchanges.* The one answers all the purposes of money, passes from hand to hand without endorsement*, without examination,

* If endorsement is an essential distinction, whence the *threat* to country bankers to deter them from any attempt at circulating short dated bills of exchange as substitutes for Bank notes?

if there be no suspicion of forgery; and it is what its designations imply it to be, currency or circulating medium."

Here the first link in the chain, or rather the ground-work of the argument, by which it is sought to show that Bank notes, possessing properties which apply to no other description of circulating medium, require regulation as to the quantity allowed to be issued, will be found to fail. The definition of *money*, as including promissory notes strictly payable in coin on demand, is not warranted by any recognised authority, or by any legitimate process of reasoning.

First, as to authorities.

In Johnson's Dictionary the definition of Money is, "Metals coined for the purposes of commerce."

In no instance, I believe, will it be found that Mr. Locke or Mr. Harris, or even the first Lord Liverpool, included promissory notes, issued by banks and returnable to the issuers at the will of the holder in exchange for coin, in their use of the word "Money."

The Bullion Report of 1810 affords no sanction to the definition of the word by Sir Robert Peel. The phraseology of the Report, on this important point, is remarkably guarded and uniform. "Paper currency" is the term employed, and the words "paper money" do not occur in more than one or two instances; and in these the immediate context fixes the acceptation in which they are used. So also Adam Smith occasionally speaks of paper money when meaning paper credit, that is, Bank notes payable in coin on demand. The same use of the term may doubtless be found in other writers; and I have so used it myself. But it will be found, I apprehend, that it has only been so employed as one among the several current modes of expression in which the term has been variously applied. And it is only as a matter of strict and scientific definition, in the nature of one of the

postulates for the basis of a theory, and as a ground for its practical application, that I deny the existence of any sufficient authority for such use of the term.

Mr. Huskisson, in the following extracts * from his pamphlet, seems to have taken considerable pains in marking the distinguishing features of money and paper currency properly so called.

"It is," he observes, "of the essence of money to possess *intrinsic value.*"

"Paper currency has obviously no intrinsic value."

"A promissory note, under whatever form, or from whatever source it may issue, *represents* value. It does so inasmuch as it is an undertaking to pay *in money* the sum for which it is issued."

"The *money* or coin of a country is so much of its capital. Paper currency is no part of the capital of a country; it is so much circulating credit."

"Whoever buys gives—whoever sells receives, such a quantity of pure gold or silver as is equivalent to the article bought or sold. Or if he gives or receives *paper* instead of *money*, he gives or receives that which is valuable only as it stipulates the payment of a given quantity of gold or silver. So long as this engagement is punctually fulfilled, paper will of course pass current with the coin with which it is constantly interchangeable. Both *money*, however, and paper *promissory* of money, are *common measures*, and *representatives* of the value of all commodities. But *money* alone is the *universal equivalent: paper currency* is the representative of that money."

Then as to the process of reasoning by which Sir Robert Peel classes Bank notes under the designation of *money*. He assumes that there is a distinction not only between the character of a promissory note payable on demand, and other forms of paper credit, but between the effects which they produce respectively upon the prices of commodities, and upon the exchanges. This assumption of the peculiar influence of Bank notes on prices, and on the exchanges, is unsustained by fact or argument. But of this ground of distinction, more hereafter.

* *The Question concerning the Depreciation of our Currency stated and examined,* 1810, pp. 1, 2.

The only other ground of distinction stated by Sir Robert Peel is that of their "passing from hand to hand without endorsement and without examination, if there be no suspicion of forgery." These differences are the most trivial imaginable. With reference to these and other distinctions that have been set up between Bank notes and bills of exchange, the following remarks by Mr. Fullarton have my entire concurrence:—

I am aware, indeed, that by those who can perceive no difference between a Bank note and a sovereign, in respect to their several capacities of ministering to the offices of exchange, and yet are unwilling to allow the bill of exchange or the banker's cheque to rank on a parity with the Bank note as money, certain small and irrelative points of distinction have been suggested and insisted upon, as affording legitimate ground for the peculiar estimation which they claim for the Bank note. With regard to bills of exchange, for instance, we are told, that they are not entitled, like Bank notes, to the designation of money, for these among other reasons, namely, that they are "payable at a *fixed place* (! !), are drawn for amounts inconvenient for the general purposes of pecuniary affairs, require a knowledge on the part of those who receive them as to the solidity of the names which appear on them, and, in most cases, can only be transferred by an indorsement, which involves the credit of the indorser." *

Now, in the first place, it is not in point of fact true, that the circumstances here enumerated as peculiar to bills of exchange constitute any real distinction between those bills and promissory notes. If bills of exchange are payable at a *fixed place*, every Bank note, I apprehend, is the same; though how its being so or otherwise should be a matter of the slightest importance, I own I am quite unable to conjecture. The sums for which bills of exchange are usually drawn, may be more unequal, and less convenient for pecuniary purposes, than the sums imprinted on Bank notes; but this is an inconvenience easily obviated wherever bills of exchange come extensively enough into use as a substitute for money to make it worth the trouble, and it proved no obstacle to their being employed during a long series of years, and to the almost total exclusion of notes, as the currency of all Lancashire, of the West Riding of Yorkshire, and a large portion of the other great manu-

* See Mr. Norman's 'Letter to Charles Wood, Esq. M.P.,' p. 43.

facturing districts in the heart of England. In those districts, we are told, that bills were then to be had for all sums from five pounds to ten thousand, and at all dates not exceeding three months. It may no doubt be very desirable that the party receiving a bill of exchange should know something "of the solidity of the names which appear on it;" but it cannot be more so, than that the taker of a Bank note should know something of the solidity of the banker who issues it. And, with respect to the alleged peculiarity attaching to bills, that "in most cases they can only be transferred by an indorsement which involves the credit of the indorser," it may be sufficient to answer, that, though an indorsement may in the first instance be required to render a bill of exchange negotiable, that negotiation need not involve the responsibility even of the first indorser, unless he pleases; and a bill once indorsed in blank may afterwards pass through a hundred hands by delivery, just as a Bank note does.*

These *essential* distinctions are in truth worth absolutely nothing, and most assuredly they do any thing but prove that Bank notes can, with propriety, be included in the definition of *money*, to the exclusion of bills of exchange.

It will have been observed that, in the passage I have cited, Sir Robert Peel slides from contending that Bank notes are money into considering them only as *currency* or *circulating medium*, but still to the exclusion of bills of exchange. He, in a subsequent passage of his Speech, refers to the first Lord Liverpool, whom he had before quoted, and proceeds to remark: —

"There is a passage in the work to which I have before referred, the Treatise of Lord Liverpool, which draws the just distinction between paper credit and paper currency, and exposes the fallacy of those who deprecate any attempt to regulate by law the paper currency on the ground that it is not distinguishable from paper credit."

"Lord Liverpool observes: — It has been a common artifice practised by those who have written on paper currency, to confound paper credit with paper currency, and even the higher sorts of paper currency with the inferior sorts, such as immediately interfere with the use of the coins of the realm. Paper credit is not only highly convenient and beneficial, but is even

* *On the Regulation of Currencies*, pp. 38, 39.

absolutely necessary in carrying on the trade of a great commercial kingdom.

"Paper currency is a very undefined term as used by speculative writers. To find arguments in its support, at least to the extent to which it is at present carried, they have been obliged to connect it with paper credit; so that the principles on which the use of paper credit is truly founded may be brought in support of a great emission of paper currency. Paper currency, strictly speaking, consists only of bills or notes payable or convertible into cash on demand by the person who issued the same at the will of the holder."

Lord Liverpool's book, published in 1806, consequently during the Bank Restriction, treats almost exclusively of the professed object of it, as indicated by its title, "The Coins of the Realm." And a most valuable treatise it is on that subject. A distinct examination, however, of the nature and functions of the different forms of paper did not enter into the purpose of the writer, and consequently he can hardly be considered as an authority for the distinction set up by Sir Robert Peel. Lord Liverpool nowhere sanctions the definition of "money" as including Bank notes. But he incidentally notices a distinction which it would have been well that Sir Robert Peel should have been aware of. The distinction I allude to is that between the higher denominations of Bank notes and the lower. Lord Liverpool says, in the passage cited, it has been a common artifice among writers on paper currency "to confound the higher sorts of it with the inferior sorts, *such as immediately interfere with the use of the coins of the realm.*"

Adam Smith is the first, I believe, who pointed out the distinction between Bank notes of the lower denominations, which served chiefly for the purposes of retail trade, and the higher, which were in use principally between dealers and dealers. The higher ones do not now circulate even among dealers, excepting cattle dealers and horse dealers, having been superseded by a general use of banking accommodation, and consequently by cheques and

book credits. I am not aware that this distinction between the two denominations of notes had been remarked upon by any writer since Adam Smith, excepting this slight incidental notice by Lord Liverpool, till I had occasion, in a pamphlet which was published a few weeks before Sir Robert Peel brought forward his measure, to call attention to the important bearing which the difference between the two sorts of paper is calculated to have upon the question of the currency theory. The confounding of them Lord Liverpool considers to be "an artifice" practised by those who have written on paper currency. I consider it to be nothing more than a gross mistake. It confuses and vitiates the reasoning on which the main conclusions of the currency theory are made to rest; and it involves the further mistake of confounding currency and capital.

Sir Robert Peel, after referring to the above passage from Lord Liverpool, says, "That appears to me to be the true definition of paper currency as distinguished from paper credit. It is the substitute for and immediate representative of coin, *and with coin constitutes 'money.'*" Now Lord Liverpool justly observes that it is the lower sorts only that interfere with the coins of the realm: by *interfering with*, meaning, obviously, serving *as substitutes for them;* and nowhere does he sanction a definition by which even these notes of inferior denomination could be considered as paper "money."

Sir Robert Peel's definition of money is identical, however, with that which had been propounded and explained by Mr. Norman and Mr. Loyd in their evidence and their pamphlets.

The mistake on which this definition proceeds of confounding the two distinct functions of Bank notes, and considering both of them as substitutes for coin, and consequently as *constituting money*, is so important in its bearing upon this first link

of Sir Robert Peel's argument, that I trust to be excused for here inserting the following extract from my pamphlet in which the distinction between the two kinds of circulation is pointed out:—

"Mr. Norman, after noticing what he calls the contrivances usually resorted to for the purpose of either dispensing with the use of money altogether, or of diminishing the quantity of it, which are absolutely required for the adjustment of existing transactions, observes—

'On these contrivances one general remark may be made, as it affords a ready and practical, if not a strictly scientific distinction between such substitutes for money, and that which, as I conceive, really constitutes money, viz. coin and bank notes. If bank notes are withdrawn from circulation, their place must necessarily be supplied by an equal amount of coin; but the abolition of any, or of all of the contrivances for dispensing with the use of money, will not necessitate the introduction in their place of an equal amount of coin or bank notes.'—(*Letter to C. Wood, Esq.*, p. 34.)

"In dealing with this proposition, let us try it by putting the case in the strongest way, and suppose that the Bank of England has the power, and is disposed, to withdraw all its notes from circulation; or, in order to obviate the objection, that in such case other banks might supply the vacuum, let us suppose that all promissory notes, payable on demand, were suppressed by act of Parliament, Would Mr. Norman contend, that the whole amount must of necessity be replaced by coin?

"Most assuredly such would not be the effect.

"A moment's consideration must be sufficient to satisfy any one that it would only be the smaller denomination of notes, which, if suppressed, would require to be replaced by coin; the whole of the 1*l.* notes, which still circulate in Ireland and Scotland, would require to be so replaced; and the greater part of the 5*l.* notes, and a small part of the 10*l.* notes, in the United Kingdom.

"All the larger amounts might be, and most probably would be, supplied by cheques, and bills of exchange, and settlements.

"The employment of the higher denominations of Bank of England notes is chiefly for the following purposes:—

"1. Collection of the public revenue, and the payment of it into the Exchequer.

"2. Payments on sales and mortgages of landed and other fixed property. Till lately the rule in transactions of this nature was almost uniformly that the payment, on conveyance of the deeds, should be made in Bank notes. But there has of late been a tendency to relax this rule, and cheques are now not unfrequently received in payment on such occasions.

"3. Dividends and rents received by persons who do not employ bankers.

"4. Payments for debts in cases in which the debtor has not a banker, or in which he would not be trusted so far as to have his cheque received in satisfaction of the claim.

"5. Payments into Court in litigated claims.

"6. Reserves held by bankers, and especially those of the west end of the town, and by the joint-stock banks in the city who are not admitted to the clearing-house.

"7. Settlements at the clearing-house.

"Now these are peculiar purposes, most or all of which might be answered by other means than Bank notes, and most assuredly not by supplying their place by coin.

"1. The public revenue is, in an increasing number of instances, paid into the Exchequer by drafts on the Bank of England.

"2. Payments for landed and fixed property are in an increasing number of instances paid by cheques.

"3. Dividends to persons not keeping bankers

might be retained by them in the shape of warrants.

"4. and 5. Involve so small an amount, as not materially to affect the question.

"6. The circulation of Bank of England notes among bankers, whether between the Bank of England and the west end bankers, and the city joint-stock bankers, and the circulation of country Bank notes, in settlements among each other, are mere conventional transfers of capital, which, with

"7. The clearings among the bankers of the city of London might all be effected either by Exchequer bills, as in the case of the banks of Edinburgh, or by cheques on the Bank of England.

"The country bank notes above the lowest denominations (which are in use in the retail trade, and in the payment of wages) are mostly employed in the provision markets, and in cattle and horse fairs, purposes for which bills of exchange were formerly, and might be again, very extensively employed."*

It appears, then, that there is neither authority nor reasoning in favour of the definition which invests Bank notes with the properties of money, or paper currency, *to the exclusion of all other forms of paper credit.* So that the first link of the argument of Sir Robert Peel, or, rather, the groundwork of it, utterly fails. But even if he had established his definition of Bank notes, as constituting money, or even paper currency, exclusively of all other forms of paper credit, so that the distinction, instead of being a mere unsupported dictum of the currency theory, were admitted as an axiom beyond doubt or dispute—it does not follow that

* It was a great omission on the part of the Committee on Banks of Issue in 1840 and 1841, not to have inquired of the bankers who were examined what were the purposes for which the different sorts of bank notes were required.

this description of paper obligations, or promises, should require more of regulation, as regards the issue or the quantity of them, than other obligations, merely because they are payable on demand. There is no more reason, derivable from the exposition which assumes this particular property of Bank notes as constituting them to be money, for compelling the issuers of them to limit their quantity, than for compelling the issuers of bills of exchange to do so.

But it seems there is another link in the argument which takes Bank notes out of the category of other forms of paper credit. Sir Robert Peel admits that other forms of credit have some effects in common with Bank notes, but he adds — "I think experience shows that the paper currency, that is, the promissory notes payable to bearer on demand, stands in a certain relation to the gold coin and the foreign exchange in which other forms of paper credit do not stand." What this different relation may be is not, upon the bare enunciation of the proposition, very obvious, nor is it rendered much more so by the illustrations offered in elucidation of it. "There are," says Sir Robert Peel, "striking examples of this adduced in the Bullion Committee of 1810, in the case both of the Bank of England and of the Irish and Scotch banks." He then goes on to give the examples, which are —

1. The Bank of England in 1696, when it had suspended its payments in cash, and when its notes were at a discount of 17 per cent.

2. The Bank of Ireland in 1804, when its notes were not only inconvertible into gold, but were not convertible, as the English and Scotch bank notes were, into Bank of England notes.

3. The Scotch Banks about the middle of last century, which issued notes with an *optional clause.*

To Mr. Fullarton* we are indebted for a very clear exposure of the utter inapplicability of these examples to the elucidation of the very obscure proposition which they were called forth to illustrate. I regret that the length of this very striking passage compels me to refrain from inserting it. I will only here repeat the concluding sentence of it: —

"Really, to anticipate any effect from illustrations like these, is presuming somewhat far on the ignorance of those to whom they are addressed."

How Sir Robert Peel could venture to adduce examples so inappropriate to any legitimate purpose of his argument, is not easily to be accounted for, unless he acted upon the presumption — perhaps a fair one — that he was addressing an auditory profoundly ignorant of the subject, and a public little less so.

Sir Robert Peel concludes the citation of these singularly inappropriate examples with the remark, "In all these cases *the action* has been upon that part of the paper credit of the country which has consisted in promissory notes payable to the bearer on demand."

It appears from this passage that Sir Robert Peel, assuming that the Bank, in those far-fetched cases of inconvertible paper, acted directly upon the amount of their out-standing notes, inferred, and desired those he was addressing to infer, that the Bank of England and the country banks, in modern practice, and in a strictly convertible state of the paper, have also a direct power over the amount of their circulation, and thence an influence on the total quantity of *money;* and, consequently, on prices, and on trade and credit.

* Regulation of Currencies, p. 176 to 184. 2d edition.

SECTION 3.—*On the Currency Principle.*

Sir Robert Peel, in ascribing these exclusive properties and functions to bank notes, and in maintaining, as he did, that the amount of them ought to be regulated by immediate reference to the foreign exchanges, had become, in the fullest sense of the word, a proselyte of the "Currency principle"* school.

And as it was in accordance with the tenets of that school that his banking measure of 1844 was framed, it is necessary, in the examination of the merit of the scheme, here to give some account of them. This I cannot do better than by the follow-

* It has been supposed that the use of the expression "Currency Principle" to designate the set of opinions here alluded to was first used by me. This is a mistake: it was first used, I believe, in the evidence of Mr. Norman, before the Committee on Banks of Issue in 1840. After a question and answer relating to the circulation of the country banks, he is asked,—

"Q. 2018. Do you conceive that their circulation is at present regulated in any way consistently with the variation which would take place in a metallic currency?—No; I think not: it seems to me that their circulation is varied upon what I should call *Banking principles:* that is to say, that it increases with the rise of interest and prices; and that it decreases with the fall of interest and prices, *in opposition to what I should call Currency principles, according to which it would increase or decrease with increase or decrease of bullion;* and the only limitation that I can perceive, is the ultimate necessity which the private issuers are placed under of discharging their notes in gold or Bank of England notes."

There is another answer or two by Mr. Norman, in the same evidence, in which the term is so used. And in his letter to Charles Wood, Esq., in 1841, page 30, the term "Currency Principle" is again used in opposition to the "Banking Principle."

Mr. Gilbart, in the course of his examination before the same Committee in 1841, having made use of the terms Currency principles and Banking principles, was asked:—"Q. 932. What do you mean by the expression 'Currency principles?' —I mean by the phrase 'Currency principles' a bank which shall do nothing else but issue notes for gold, and gold for notes. Q. 933. What do you mean by the expression, 'Banking principles?'—I mean by 'Banking principles' notes that

ing description of them, given by me when writing on the subject, before I was at all aware, *or thought it within reasonable probability*, that the theory of that principle was destined to form a basis for the regulation of our paper currency.

"It was held by most writers of any authority on the subject of the currency, till within the last few years, that the purposes of a mixed circulation of coin and paper were sufficiently answered, as long as the coin was perfect and the paper constantly convertible into coin; and that the only evils to be guarded against by regulation, were those attending suspension of payment and insolvency of the banks, a large proportion of which blend an issue of promissory notes with their other business. This, in point of fact, is what is understood in general terms as the 'Banking principle,' and is that upon which our system of currency is constructed and conducted.

"But a new canon of currency has of late been promulgated by persons of no mean authority. According to these authorities, it is not sufficient that the Bank notes should be at all times strictly convertible into coin, and that the banks, whether issuing or not issuing, should be solvent; they consider that a purely metallic circulation (excepting only as regards the convenience and economy of paper), is the type of a perfect currency, and contend that the only sound principle of a mixed currency is that by which the Bank notes in circulation should be made to conform to the gold, into which they are convertible, not only in value, but in amount; that is to say, that the Bank notes

are issued in the repayment of deposits, or in the discount of bills, or in the making of loans; at the same time, I would state that I merely used those words in the sense in which they are used by the writers who advocate those peculiar principles which they call Currency principles. I do not at all admit that those are the correct principles upon which the currency should be administered."

being supposed to be a substitute, and the only substitute, for so much coin, should vary exactly in amount as the coin would have done if the currency had been purely metallic; and that the test of good or bad management is not, as is considered under the mere banking principle, in the extent or proportion of reserve in treasure and in immediately convertible securities held by the banks; but in the degree of correspondence between variations in the amount of bullion and variations in the amount of Bank notes in circulation. A regulation of the issue of Bank notes, in conformity with this doctrine, is now understood to be designated as the 'Currency principle.'

"With a view to the application of this principle to practice, it has been suggested that either a national bank should be established under commissioners, whose duty and functions should be confined to the exchange of paper against gold and of gold against paper, for all beyond a fixed amount of paper issued against securities; or that the Bank of England should be the sole source of issue, under the strictest rule of separation of the functions of issue from the merely banking department.

"The arguments urged in favour of such separation have, as it should seem, made considerable impression on the public mind, and schemes founded upon this principle have been strongly pressed on the attention of government, on the ground not only of guarding against the danger of suspension and insolvencies of the issuers, but of imparting more confidence and stability to credit and trade, and of securing greater steadiness in prices, and thus obviating or abating the alternations of feverish excitement and the extreme of depression, which have prevailed under the existing system, and which are imputed to *a neglect of the Currency principle.*

"The theory of the Currency principle numbers among its advocates many distinguished names. The fullest and most elaborate statements of it, however, are to be found in the publications of Mr. Norman, Mr. Loyd, and Colonel Torrens, and in the evidence of the two former gentlemen before the Committee of the House of Commons on Banks of Issue in 1840. I therefore avail myself mainly of their exposition of the doctrine, and their arguments in support of it, as affording the best grounds for an examination of the theory, and of the practice recommended as an application of it.

"The following extract from Mr. Norman's evidence conveys a concise statement of the theory, and of the proposed application of it, as the only sound rule for the paper portion of the currency, namely, Bank notes, which he limits to those notes which are in the hands of the public:—

"'I consider a metallic currency to be the most perfect currency, except so far as respects inconvenience in some respects, and cost. In every thing else a metallic currency is the most perfect, and should be looked upon as the type of all other currencies; and as from their superior convenience and greater cheapness, bank notes are introduced to supply the place of a certain portion of metallic currency, I think that bank notes should be so managed, that they should possess all the other attributes of a metallic currency, and among those attributes, I conceive the most important to be that they should increase and decrease in the same way that a metallic currency would increase and decrease. I do not think it is possible to improve upon a metallic currency, except in the two points of convenience and cheapness.'*

"Mr. Norman afterwards explained that by convenience he meant the easier transfer, and by cheapness the economy of using the less costly material; so that the paper thus regulated, would be so far an improvement on a metallic currency.

"The following are the chief* evils which present themselves, according to Mr. Norman's view,

* G. W. Norman, Esq. Evidence. Committee on Banks of Issue. Question No. 1749.

in our existing paper circulation, from its not conforming to such rule:—

"1. A tendency to vary, both as to excess and deficiency, in an unnecessary degree, and at unsuitable periods.

"2. A liability to discredit, both mercantile and political, in a large portion of it, if not the whole.

"3. Temporary or permanent insolvency on the part of many of the issuers.

"Mr. Loyd in his evidence gives the following view of the inconvenience which he ascribes to the present system:—

"'*Q.* 2748. Are there any other evils besides the danger of nonconvertibility that arise out of the present system?'—'*A.* 'There can be no doubt about it; the state of the circulation has a very direct effect upon the state of credit, of confidence, of prices, and of banking; and if the state of the circulation be allowed to become an unnatural one, unnatural and pernicious effects will be produced upon all those. If your circulation is subject either to depreciation from excess of its amount, or to violent fluctuations of amount, then undoubtedly that will be followed by corresponding effects upon confidence, upon credit, upon prices, upon banking, and so forth. Those things are also affected by other considerations. I do not see that it is possible to analyse the effects, and to attribute to each cause its respective share in producing those effects; all that can certainly be understood is, that if you regulate the paper circulation upon sound principles, you may be quite sure that you have then removed that portion of the evil effects which was attributable to the want of due regulation.'

"By an unnatural state of the circulation, and the want of due regulation, must be understood in the sense in which Mr. Loyd uses the term, a non-conformity of the amount of Bank notes to the amount of bullion."—(*Inquiry into the Currency Principle*, p. 1—6.)

It will be observed, that in charging the system as it existed before the Act of 1844, with the evils here enumerated, and in imputing, as mismanagement on the part of the Bank of England and the

"Remarks on Currency and Banking," by G. W. Norman, Esq., 1838.

country banks, their not so regulating the amount of the note circulation as to make it conform to the variations in the foreign exchanges, the propounders of the theory of the currency principle assume and affirm that it is in the power of the banks to act directly on their circulation; in other words, that they *can* and *do* exercise a direct control over the quantity of paper currency which they define to be Bank notes.

Section 4. — *On the Error of confounding Paper Credit with Paper Money.*

In the assumption alluded to at the close of the last section, it is now quite clear that, in the currency theory, *paper credit*, that is Bank notes, resting on credit and payable on demand in coin, is confounded with *paper money*. The distinction between the two is thus pointed out by Mr. Huskisson.

"Of *paper currency* there are two sorts; the one resting upon *confidence;* the other upon *authority*. Paper resting upon confidence is what I have described *as circulating credit*, and consists in engagements for the payment on demand of any specific sums of *money*, which engagements, from *a general trust* in the issuers of such paper, they are enabled to substitute for *money* in the transactions of the community. Paper resting upon authority, is what, in common language, is called *paper money;* and consists in engagements issued and circulated under the sanction and by the immediate intervention of the public power of the state.* Paper, such as alone used to be current in Great Britain before the restriction on the bank, was strictly *circulating credit.* The paper current in Austria, Russia, &c. is properly denominated *paper money.*"

Professor Storch, in his very elaborate work "Cours d'Economie Politique," gives the following definition of paper money †: —

* The confusion between paper credit and paper money seems to have given rise to the dogma of the currency theory, that the issue of promissory notes payable on demand, in coin, is a prerogative or function of the sovereign!

† Vol. iv. p. 1.

"On reserve le nom de papier-monnaie à des billets que le souverain ordonne de recevoir en payement à la place du numeraire metéllique. Quelles que soient la forme et l'origine de ces billets, qu'ils promettent un remboursement ou non, qu'ils soient émis par des particuliers ou par le gouvernement, dès que leur circulation n'est plus l'effet de la confiance, ils cessent d'être des billets de confiance et deviennent du papier-monnaie."

Billets de Banque he considers as *billets de confiance*, in other words, as paper credit, and therefore as differing essentially from paper money. Other authorities might be cited to the same effect.

Thus, for example, there is the following passage in Mr. Fullarton's treatise, already referred to:—

"Gold and silver coin pass current in exchange for all sorts of commodities, because gold and silver are themselves commodities of value, and furnish the buyer and seller with a convenient equivalent that is universally in demand. Inconvertible government notes, though valueless in themselves, acquire a value in exchange, as has been shown, from the conditions annexed to their emission, and by reason of that value are received in exchange for commodities precisely on the same principle as coin. These two descriptions of circulation, therefore, fall naturally under a common head; and the phrase 'money' may by a fair analogy be applied equally to the one as to the other. The operations performed by both, but more especially those performed by the coin, partake to a greater or less extent of the nature of barter. But when, in the progress of society, credit comes to perform an important part in all mutual dealings, and in the great majority of transactions supersedes the necessity for this interchange of equivalents, an entirely new principle is brought into play, and one governed by distinct laws. Credit becomes then the legitimate substitute for money, but, in all its modifications and phases, it is distinguished by a broad and impassable line from money itself. The real question then to be considered is, not whether this or that particular form of credit be entitled to the designation of 'money,' but whether, without a perversion of terms and an outrage of principle, that denomination can be applied to credit in any shape.

"Now, what are bank-notes but a form of credit? What are they but credit parcelled out into small and even sums, for greater convenience in circulation? Each note is simply a transferable acknowledgment of a debt due from the banker to the first recipient of the note, and which he (the banker) promises to pay on demand: the value of which it purports to convey is that which it enables the holder to command by sending it to the bank, from whence it issued, and no other; and it

is a value which rises and falls with the value of the money it represents, whether that money be metallic or conventional; for a circulation of bank notes may have either indifferently for its basis."—(*Regulation of Currencies*, 2d edition, pp. 36, 37.)

The difference between the two descriptions of paper is highly important. In my tract of 1844, I noticed the error of confounding the two, and pointed out their distinctive features in practical operation. As my notice of that distinction, and of the practical consequences flowing from it, brought forth answers from some of the most prominent of the partisans of the currency theory, avowing their belief of the perfect identity of the two sorts of paper currency up to the point of convertibility, and denying any difference up to that point in their practical effect, it is essential to a clear view of the difference between us, to insert here the passages of my tract relating to it, and of the answers which it elicited.

"A great part of the examination of witnesses by the Committee of the House of Commons on Banks of Issue in 1840, was directed to the eliciting of opinions as to the terms by which the various kinds of instruments of exchange should be designated and classified. The witnesses were severally called upon to define the sense in which they used the terms 'money, currency, and circulation,' and to say whether they included deposits in the Bank and bills of exchange under any or all of these terms.

"The importance which was attached to the attempt at settling those definitions seems to have arisen from an opinion which prevailed evidently among the members of the Committee*, that, by

* From the tenour of the questions which were put to me and other witnesses by Mr. Hume, it might be inferred that he was of opinion that bank notes and deposits, as they conferred *a power of purchase*, were operative as a cause of variations of prices. And it is possible that such was *then* his opinion; but, not long before, he seems to have entertained a very different

arriving at a conclusion as to what part of the various forms of paper credit should be considered exclusively as money or currency, conferring *a power of purchase*, some criterion or test might be found of the influence of one of the principal elements upon which not only the state of trade and credit, but also general prices depend; it being assumed that commodities, although liable in each particular instance to be influenced by circumstances affecting the supply and demand, are more or less under a direct influence from variations in the quantity of money or currency. And the same assumption of a direct agency of the quantity of money, according to the assumed definition of it, on prices, will be found to be either expressed or implied in the vast majority of the numberless publications to which the currency question has given rise.

"An increase or diminution of the amount of Bank notes is evidently considered, not only by the professed adherents of the doctrine of the currency principle, but by a large proportion of the public who take an interest in the subject, to be analogous, in the effects on markets, to alterations in the quantity of a government compulsory paper; or, in other words, they consider that prices in such cases are under a direct influence from, and affected in the same manner by, variations in the amount of

view. In the debate on Sir W. Clay's motion for a committee on Joint Stock Banks, May 12. 1836, Mr. Hume said, "With regard to the amount of paper issues, I think I could show that it would be impossible to issue too much paper money, if it were made convertible into gold in every part of the kingdom on demand. Indeed, I believe that great delusion exists in the country with regard to the effect on prices of the currency. My opinion is, that the quantity of money depends on the rise of prices; and that the rise of prices does not depend on the quantity of money. I hold the prevailing doctrine to be extremely erroneous on this point. The currency doctors I know differ from me; but there has never been a fair opportunity of demonstrating the truth of my propositions."

Bank notes in circulation, which they designate indiscriminately as paper money.

"I cannot help thinking that there is a lurking impression among the doctrinaires of the currency theory, arising mainly from their use of the term '*issue of paper money*,' which leads them to confound Bank notes, strictly convertible into coin, with a compulsory and inconvertible paper currency. It is true, no doubt, that they are aware that the liability to payment on demand in gold will eventually check any excess of issue in the one, and will thus distinguish it from the other. But it seems to me equally true, judging by all their expressions and the whole course of their arguments, that they are misled by a false analogy, and that although they admit in general terms that there must be a check to the power of issue by its being brought to the test of convertibility, they are of opinion that there is a power in each individual bank of issue, and in the banks of issue collectively, to operate at any given time in adding directly to the amount of Bank notes in circulation and in withdrawing them from it. The presumption that the advocates of the currency principle are under the influence of this mistaken analogy will be strengthened when we come to the consideration of the effects in trade, credit, and prices, which they ascribe to the influence of the quantity of money, meaning Bank notes and coin.

"This erroneous impression arises from a neglect of the consideration of the difference in the manner and purpose of the issue. I have not met with an instance in the inquiry by the committees, or in the numerous publications which have appeared on the subject of the currency, of any attention having been paid to this particular point. Indeed, the context in all of them seems to assume that there is no difference, and that therefore any attempt at explanation would be a work of supererogation.

Thus, Mr. Porter, who, in the chapter on currency, in his highly valuable work 'On the Progress of the Nation,' attributes to the amount of the circulation great influence on prices, contents himself with observing, '*It is not necessary to explain*, at any length, *in what manner* excessive issues of currency tend to raise the general prices of goods.'* Now an explanation, however brief, of this point was exactly the thing wanted. And I cannot help thinking, that if he had suffered himself to pause and reflect upon it, he could hardly have failed to modify the opinion he has there expressed of the influence of the amount of the currency on prices, and he would possibly have been led to distrust the correctness of the view presented by the table which he has inserted in illustration of his opinion of that connection.

"A moment's consideration will serve to show the importance of the distinction to which I have here alluded.

"When a government issues paper money, inconvertible and compulsorily current, it is usually in payment for—

"1. The personal expenditure of the sovereign or the governing power.

"2. Public works and buildings.

"3. Salaries of civil servants.

"4. Maintenance of military and naval establishments.

"It is quite clear that paper created and so paid away by the government, not being returnable to the issuer, will constitute a fresh source of demand, and must be forced into and permeate all the channels of circulation. Accordingly, every fresh issue beyond the point at which former

* Progress of the Nation, vol. ii. p. 225. Mr. Porter, however, in a new edition, although he still retains the table and the general views alluded to above, has omitted the particular sentence given in the text.

issues had settled in a certain rise of pricés and of wages, and a fall of the exchanges, is soon followed by a further rise of commodities and wages, and a fall of the exchanges; the depreciation being in the ratio of the forcibly increased amount of the issues.*

"It will hence appear that the difference between paper money so issued, and bank notes such as those of this country consists, not only in the limit prescribed by their convertibility to the amount of them, but in the mode of issue. The latter are issued to those only who, being entitled to demand gold, desire to have notes in preference; and it depends upon the particular purposes for which the notes are employed, whether a greater or less quantity is required. *The quantity*, therefore, *is an effect and not a cause of demand.* A compulsory government paper, on the other hand, while it is in the course of augmentation, acts directly as an originating cause on prices and incomes, constituting a fresh source of demand in money, depreciated in value, as compared with gold, but of the same nominal value as

* Discredit is not an essential element in variations of the value of an inconvertible paper, nor is depreciation always a necessary consequence of inconvertibility. The notes of the Bank of England, and of the private banks of this country, were, for two years after the restriction, of the same value as if they had been convertible, and never experienced any discredit. There were great fluctuations in the credit of the paper money of the United States of America during the War of Independence, and also in the case of the French assignats, arising from fluctuating opinions as to the chances of redemption; and both descriptions became ultimately valueless by excess, when all prospect of redemption had ceased. But the Russian government paper, although, during the progress of its depreciation, by successively increasing issues, no certain or probable prospect of redemption had been held out, seems never to have suffered any discredit; and the variations of the exchanges beyond those produced by the mere excess of the paper, were such only as are incidental to variations in the state of trade. . .

before." — *Inquiry into the Currency Principle*, pp. 68–70, 19, 20.

Sir William Clay and Colonel Torrens, in pamphlets which appeared soon after mine, and professed to be refutations of my objections to their theory, each of them avowed that they could not see any difference between the two kinds of paper up to the point of convertibility.

The following is the passage of Sir William Clay's pamphlet*, in which he makes that avowal:—

"I profess myself to partake of the blindness of the public in this matter, and to be wholly unable to perceive any other difference between the two issues of paper money here described than the point of convertibility, or in the phenomena which they are respectively capable of exhibiting. I cannot understand why paper money issued to defray the expenditure of the sovereign should be different in its effect when so issued, from paper money paid away for the expenditure of private individuals, why a five-pound note issued to the builder of a barrack should take a different course from a five-pound note paid to the builder of a shop or warehouse — why notes employed to defray the salaries of government clerks should be more disposed to 'permeate all the channels of circulation' than if used to pay clerks in merchants' counting-houses, or workmen in a factory? I myself am totally at a loss to conceive of any one circumstance or quality which might be predicated of the one, which might not with equal truth be predicated of the other. The one sole difference is convertibility — a most important one, no doubt."

This avowal of Sir W. Clay of his inability to perceive the difference which I had pointed out between the two issues is thus remarked upon by Mr. Fullarton: —

"Sir William Clay, however, cannot, it seems, understand this. 'He is wholly unable to perceive' any of that 'essential difference of character, independently of convertibility, between Bank notes and a government compulsory paper, which

* Remarks on the Expediency of restricting the Issue of Promissory Notes to a single issuing Body, by Sir W. Clay, Bart., M.P., 1844, p. 38, 39.

Mr. Tooke insists upon; he can see no point of distinction but in the convertibility of the notes; and, when Mr. Tooke points out, that the compulsory issues of Governments are usually in payment for the personal expenditure of the Sovereign, for public works and buildings, or for the maintenance of civil, naval, and military establishments, and that 'paper created and so paid away by the Government, *not being returnable to the issuer*, will constitute a fresh source of demand, and must be forced into and permeate all the channels of circulation,' Sir William Clay seems to think the proposition satisfactorily answered by a profession of his inability to discover 'why paper money issued to defray the expenditure of the Sovereign should be different in its effect, when issued, from paper money paid away for the expenditure of private individuals—why a *5l.* note issued to the builder of a barrack should take a different course from a *5l.* note paid to the builder of a shop or warehouse—why notes employed to defray the salaries of Government clerks, or the pay of soldiers and sailors, should be more disposed to permeate all the channels of circulation, than if used to pay clerks in merchants' counting-houses or workmen in a factory.'*

"It is certainly not surprising that Sir William Clay should be unable to perceive the truth of a string of distinctions, which neither Mr. Tooke nor any other sane person has ever dreamt of maintaining, and which have no other existence than in his own imagination. But what does surprise one is, that Sir William Clay should not only have read, but should quote, and profess to criticise, Mr. Tooke's very plain proposition, and yet should pass wholly unnoticed the single and only point of distinction on which Mr. Tooke's argument turns, namely, that the Government paper is '*paid away*,' and is '*not returnable to the issuer*', whereas the bank notes are only *lent*, and *are returnable to the issuers.* If the truth of this distinction be not intelligible to Sir William Clay, nor its important bearing on the question under discussion obvious to him, I can have little hope of making the matter more apparent to him by any further illustrations. I shall, nevertheless, make one effort more to bring the argument home to his conviction. I shall take the liberty of supposing that, after the suspension of cash payments in 1797, by which the bank note circulation of this country was transformed from a convertible into a conventional currency, the Directors of the Bank of England, instead of exercising the privilege intrusted to them, in the discharge merely of their ordinary functions as bankers, according to the same system, and subject to the same rules by which in all times previously they had been governed,—that, instead of

* See Sir William Clay's "Remarks on the Expediency of Restricting the Issue of Promissory Notes," &c., p. 38, 39.

making advances to individuals on the security of approved bills of exchange at short dates, and to Government on the security of the accruing produce of loans and revenues, they had chosen, and had been permitted to deal with, their issues of inconvertible notes as a private gentleman deals with his income,—to disburse them without stint or measure for objects of personal gratification, in building palaces, in laying out plantations and gardens, in the purchase of works of art, or in the pleasures of the table or the chace. Is Sir William Clay seriously of opinion that, in as far as respects the amount and value of the currency, this system of expenditure would have had no effect beyond that which would be produced by the same extent of issue in the ordinary course of banking operations? Should Sir William hesitate to reply in the affirmative, I may perhaps be permitted to observe, that the case which I have supposed is precisely that of every Government which attempts to defray the national expenditure by a compulsory issue of inconvertible paper. The paper so issued is expended in the purchase of naval and military stores, in building ships, in constructing public edifices, and in the payment of services performed to the state, and no precaution is usually taken to ensure its being ever returned again into the Exchequer. In the case of the Bank of England, on the other hand, the reflux of the notes was at no period interrupted. Perfect convertibility is no doubt one essential condition of every sound and efficient system of currency. It is the only effectual protection against internal discredit, and the best preventive of any violent aberrations of the exchange with foreign countries. But it is not so much by convertibility into gold, as by the regularity of the reflux, that in the ordinary course of things any redundance of the bank note issues is rendered impossible. When a greater number of Bank of England notes fall into the hands of any individval than he is likely to have any immediate call for, he does not, unless he wants specie to send abroad, present them to the Bank for gold. He merely lodges them with his own banker, who probably either places the sum to the credit of his own deposit account with the Bank of England, or throws them into the discount market, where they help to supply the vacancy left by the tide of notes continually setting back to the Bank. It is the *reflux* that is the great regulating principle of the internal currency; and it was by the preservation of the reflux, throughout all the perils and temptations of the period of the restriction, that the monetary system of these kingdoms was saved from the utter wreck and degradation which overwhelmed every paper-issuing state on the Continent, and which in all human probability must have been likewise our fate, had our currency at that epoch been administered by a Government Board instead of the Bank of England. I have adverted in a former page to *the deep debt which*

the nation owes to the Bank, for its services th ugh that long and trying crisis. I believe they cannot be too highly appreciated; and I believe, further, that the same services could not have been so beneficially performed by any mere bank of the state, or by any body whatever less intimately bound up in all its interests and relations with the commercial affairs and prosperity of the country. That will be an evil day for England, when the supreme executive authority of this country shall take the administration of a credit circulation into its own hands. I trust never to see it; and I hold the sort of levity with which the possibility of such an arrangement has sometimes of late been alluded to, and even hinted in the way of menace to the Bank of England, to be one of the worst indications of the existing state of public opinion on these all-important concerns."—(*On the Regulation of Currencies*, pp. 65. 68.)

Colonel Torrens indulges himself in the following remarks on my description, which he quotes, of the difference between convertible and inconvertible paper: —

"Mr. Tooke's curious reasons for his curious conclusions, that an increase in the quantity of *inconvertible* paper money does, and that an increase in the quantity of *convertible* paper does not, cause an increase of prices, require to be noticed."

He then cites the passages from my pamphlet of 1844 (already given at page 176 of the present volume), and proceeds in the following strain of comment: —

'Fallacies 'permeate all the channels' of the passages above quoted. In the first place, it is a fallacy that convertible paper is issued to those only who, being entitled to demand gold, desire to have notes in preference. In a large number, perhaps in a majority of cases, convertible paper is issued to persons who are not, at the time of issue, entitled to demand gold, and whose title to demand it is created by the paper they obtain. The merchant who discounts a bill of exchange at the Bank is entitled to demand gold, not because he was the holder of the bill, but because the Bank has advanced convertible notes upon it.* An advance of convertible notes upon secu-

* This does not follow; in a large proportion of cases no notes at all are issued when advances are made. Further, if the issue of convertible notes in discount of a bill of exchange be "a new creation of paper money," how is it to be denied that the increasing of a deposit account, to which a similar advance has been credited, is not also "a new creation," &c.? In both cases

rities is a new creation of paper money, just in the same way in which an advance of inconvertible notes by Government is a new creation of paper money.

"There is no conceivable difference as regards the nature and character of the action upon prices between the action produced by convertible, and that produced by inconvertible paper. There is, however, a difference between the degree and extent of the action; the effect being, in the one case, unlimited, and in the other, limited by the speedy diminution in the quantity of the convertible paper money as soon as its value in relation to gold begins to decline. Mr. Tooke's argument, when fairly analysed, amounts to this—An increase in the quantity of convertible paper cannot reduce its value, because, when the increase of quantity has reduced its value, a diminution in its quantity will raise its value; therefore the quantity of convertible paper has no influence upon its value."—Q. E. D.—(*An Inquiry into the Practical Working, &c., by Robert Torrens, Esq., F.R.S.* London 1844, p. 46. 48.)

These distinct avowals, by leading authorities on the part of the currency theory, combined with the definition of the word "money" by Sir Robert Peel, and by Mr. Loyd and Mr. Norman, in their evidence and in their pamphlets, which designates Bank notes as, with coin, constituting money, are very important. I had before only suspected that such was their impression, because I could not in any other way account for that doctrine of the currency principle, which ascribes to the amount of Bank notes in circulation, to the exclusion of other forms of credit, an influence on prices, and, through prices, on the state of trade and credit. The illustrations adduced in their justification, and the explanation offered of the grounds for the opinion so confidently avowed, with a view to show that there is no difference up to the point of convertibility, between issues of paper money, properly so called, and the issues of banks whose advances are on loan for short periods (advances for long periods, not

there is created a new liability to pay in gold on demand; and if there be, in reference to the point here at issue, any essential difference between the enforcement of that liability through notes and through cheques, it remains for Colonel Torrens, and those who adopt the same line of reasoning, to make it apparent.

usually coming within the legitimate province of banking), afford a clue to the source of the error which I have endeavoured to point out as pervading all the reasoning, according to the currency theory, upon the state of the circulation from 1797 down to the present time.

During the restriction, there was a *primâ facie* ground for considering the promissory notes payable on demand as paper money, and the amount of them as being, therefore, under the direct control of the issuing banks.

But leaving, for the present, out of consideration how far the paper circulation of this country, during the restriction, might or might not be looked upon as similar in its general character and effects to inconvertible government paper, we have to examine what under the present constantly and perfectly convertible state of our note circulation are the salient points of difference between it and paper money.

SECTION 5.—*On the Circumstances which determine the Outstanding Amount, and the Effect on Prices, of a Currency of Convertible and of Inconvertible Paper.*

In the assumption of a perfect similarity in the nature and character of a convertible, to those of an inconvertible paper, up to the point of convertibility (that is, up to the point at which, in an inconvertible state of the paper, the coin would be expelled through the medium of the exchanges), two conditions, which attach to the issue and circulation of convertible paper, and which essentially distinguish it from paper money, properly so called, are entirely overlooked.

These are—*the mode of issue* and *the reflux.*

1. *The mode of issue* for convertible notes is invariably through the medium of loans and dis-

counts. But the amount of loans and discounts by the Bank of England, or other banks of issue, is no measure of the amount of their notes in circulation. And the loans and discounts, that is, the advances, are commonly made for short periods.

When the Bank of England, or a country banker, makes an advance, or discounts a bill, the borrower or discounter is asked how he wishes to have the amount. In the case of the Bank of England, the borrower, when the discount or loan is agreed upon, has the option of receiving notes or gold, or a book credit. In by far the larger proportion of instances, I believe the book credit is preferred; a cheque on the Bank is passed, and placed by the borrower to his account with his banker, who, as between himself and the Bank of England, sets off the amount against acceptances to bills, or cheques upon him, held by the Bank, or simply places it to the credit of his deposit account with the Bank. In these cases not a single note is created or issued, against several millions of securities upon which advances are made, whether to individuals or to Government. It depends entirely upon the purposes which the party, having received the loan, or discounted his bills, has in view, in which of the three modes he chooses to receive payment. Hence it is clear that the Bank of England cannot, by its advances, insure that the amount so advanced, or any part of it, shall add to the circulation of its notes in the hands of the public. Nor can it be *sure* that in reducing its securities, unless to a very extraordinary extent, it will diminish the amount of its outstanding notes.

In the case of the country bank circulation, if the banker consents to make an advance, it depends upon the sum and the purpose for which it is required, whether it is taken in his own notes, in notes of the Bank of England, or in a bill on London; or if the banker has correspondents at Liverpool, or other

considerable places, the party receiving the advance may be accommodated with a bill drawn accordingly. The chief circulation of the country notes is in the agricultural districts; and the evidence of the bankers examined by the Committee of 1841, is full and complete to the effect that those notes are confined strictly to local purposes within a limited circuit; and are chiefly of the lower denomination, and for the expenditure of income in retail purchases.

But in the case both of the Bank of England and of the country banks, if it were conceivable, which it hardly is, that any addition, beyond the amount of notes required for specific purposes, could be forced into the hands of the public, there is an operation constantly going on which would almost instantaneously reduce the amount within the limits of these purposes.

The cause I allude to is,

2. The *law* of *reflux.** This law operates in bringing back to the issuing banks the amount of their notes, whatever it may be, that is not wanted for the purposes which they are required to serve. The reflux takes place chiefly in two ways: by payment of the redundant amount to a banker on a deposit account, or by the return of notes in discharge of securities on which advances have been made. A third way is that of a return of the notes to the issuing bank by a demand for coin. The last seems, in the view of the currency theory, to be the *only* way by which a redundancy, arising from the unlimited power of issue, which they assume to exist, admits of being corrected in a convertible state of the paper. It is certainly the one least in use.

Let us now examine the nature and character of

* The passage from Mr. Fullarton, in reply to Sir William Clay, inserted at page 178, may be referred to as containing a very clear and full statement of the doctrine of reflux.

inconvertible notes, properly called *paper money*, and more generally known on the Continent as *bank assignations or assignats.*

The authority issuing such paper money, can determine exactly the quantity that shall remain permanently in the hands of the public. The power of issue is unlimited, because there is no reflux. A part, which is generally a small proportion, may, indeed, be returnable in payment of taxes; but the Government may immediately re-issue the amount so returned, and then keep up or extend the quantity, according to its own purposes.

Suppose, then, that the Government, having this unlimited power, should be so sparing and judicious in the exercise of it, as only to have issued its paper within such limits as should be consistent with the maintenance of the value of it strictly at par with the coin, concurrently with which it circulated. That such equality of value is consistent with experience in the case of paper money, I shall presently show. In the mean time, let us assume the amount of paper and coin, so circulating together at par, to be ten millions; and suppose then that the Government entering upon a war, or having to construct public works and make improvements, should, to meet the extra expenditure, instead of raising the amount by taxation or a loan, resort to an emission of paper money to the amount of one million.

Were this amount issued gradually, as required for the expenditure, the effect, in the general rise of prices and of wages, might be so gradual as to be almost imperceptible. The sums paid for the articles and services required by the Government would affect, first one set of commodities and then another, and gradually raise wages, till the whole extra quantity of paper money should be absorbed into the circulation. The rise of prices would render the balance of trade, supposing it to have been just

before in equilibrio, adverse; and the exchanges would be depressed so as to induce an export of coin, if this existed in sufficient quantity, till the amount exported should make room for the addition caused by the introduction of so much paper. Thus, supposing the circulation to have consisted before of eight millions of paper, and two millions of gold coin, and that these ten millions were consistent with a maintenance of the value of the paper fully at par, then, upon the above hypothesis, one million of the coin would be expelled from the circulation by the additional million of paper introduced into it.

It would be through the medium of prices that the coin would be expelled. But there would be some, and, perhaps, no inconsiderable, interval before the rise of prices could operate sufficiently on the exchanges to induce an export of the coin. Now this is a state of things as nearly as possible analogous to that which Sir Robert Peel seems to have had in contemplation when he observed (Speech, page 27.)—

> "Unless the issuers of paper conform *to certain principles*, unless they vigilantly observe the causes which influence the influx or efflux of coin, and regulate their issues of paper accordingly, there is danger that the value of the paper will not correspond with the value of coin. The difference may not be immediately perceived; nay, the first effect of undue issue, by *increasing prices*, may be to encourage further issues: and as each issuer when there is unlimited competition, feels the inutility of individual efforts of contraction, the evil proceeds until the *disparity between gold and paper* becomes *manifest*, confidence in the paper is shaken, and it becomes necessary to restore its value by sudden and violent reductions in its amount, spreading ruin among the issuers of paper, and deranging the whole monetary transactions of the country."

It is evident from the above passage—and others to the same effect might be cited—that Sir Robert Peel was under the impression that the country banks may, and do, exercise a power analogous to that of a Government issuing paper money; that

press the exchanges; and that then, and not till then, will the check upon the issuers operate by a return of their notes for gold, compelling them suddenly to contract their circulation, so violently as to cause revulsion and discredit. This very important point has been ably illustrated by Mr. Wilson, in the following passage, founded upon one of those instances of characteristic subtlety which abound so greatly in the writings of Colonel Torrens.

Mr. Wilson says —

"But the most subtle and truly curious argument is that used by Colonel Torrens. He admits that there is a difference between the liability to depreciation of an inconvertible and convertible paper, which he states thus: —

"'The increase in the quantity of convertible paper is limited by the power of the holder to exchange it for gold, as soon as from the increase of its quantity its value in relation to gold begins to decline. If the increase in the quantity of convertible paper had no effect in lowering its value in relation to gold, the holder could have no motive in exchanging it for gold.'

"Now, really this is a special case of magnificent refinement! Every case of an optional exchange of equivalents must be considered an evidence of depreciation! It is certainly an evidence of some preference, or greater applicability for the purposes immediately required. But let us ask this ingenious reasoner — Two men go the Bank counter on two successive days; one has received a remittance of a fifty pound note from the country, which is of no use to him till he has converted it into coin, and he presents it for payment; the other man has *fifty sovereigns*, but wishes to make a remittance to the country, and he receives a note in exchange for it. The one has a 'motive' for exchanging the note for gold, the other for exchanging gold for the note; the one had a preference for gold sufficient to take him to the Bank, the other had a preference for the note sufficient to take him there. Now, we ask, which was depreciated—the coin or the note? for in one case there was more coin in circulation, and less paper, than the conve-

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nience of the public required for circulation, and there existed, therefore, a '*motive*' to convert coin into paper; in the other case, there was more paper and less coin in circulation than the public convenience required, and there existed a '*motive*' to convert it into coin. But enough. We will grant Colonel Torrens that bank paper may be depreciated in relation to coin to the extent of supplying a 'motive' to step to the Bank and exchange it; but he, too, must grant that sovereigns also may be depreciated to the extent of supplying a similar motive to exchange them. But when all the ingenuity of this most ingenious writer on these subjects has been able to give no better evidence of the liability of convertible bank paper to depreciation, *what are we to think of the minister who gravely affects to found a great bank measure on such a principle?*"—(*On Capital, Currency, Banking*, &c. pp. 58–59.)

The process in Sir Robert Peel's mind by which he ascribes to a convertible paper the effect of adding to the amount of the circulation at the will of the issuer, and thus raising prices, may be explained by the supposition of his following much the same train of reasoning on the similarity of the two kinds of issue, as is exhibited in the following passage by Colonel Torrens:—

"Mr. Tooke contends that the increase of an *inconvertible* currency would increase wages and prices, because it would be expended in the personal expenditure of the Sovereign or governing power, in salaries and in public works and buildings; and because, thus expended, it would permeate all the channels of circulation. *Now the increase of a convertible currency would produce the same identical effects, through the same identical process, which would be produced by the increase of an inconvertible currency.* Were a nobleman to obtain from the Bank of England 100,000*l.* upon the mortgage of his estate, and were he to expend the amount thus obtained in enlarging his domestic establishment, in maintaining an additional retinue of servants, and in erecting a mansion and ornamental buildings, this convertible paper, thus expended, would, like an inconvertible paper expended by Government upon analogous objects, raise wages and prices, because it would 'permeate all the channels of circulation.' Were this nobleman to expend the loan advanced by the Bank of England in improving his estate, in draining, planting, and reclaiming wastes, exactly similar results, as regards wages and prices, would be produced; while results exactly similar, as far as regards wages and prices, would be produced were a master

manufacturer to obtain discounts and other advances from the neighbouring banks of issue, and to expend the amount thus obtained in erecting new factories, in purchasing additional materials, and employing additional hands. In all these cases an increased quantity of convertible currency would 'permeate the channels of circulation,' in the same way in which an increased quantity of inconvertible currency would permeate them. The nature and character of the effect would be the same, whether the increased quantity of currency should be convertible or inconvertible, though its extent and degree in the two cases would be different. In the case of the inconvertible paper, the effect would be unlimited; in the case of the convertible paper, the effect would be confined within narrow limits; because a slight action upon prices, and on the exchanges, would cause the increased quantity of convertible paper to be withdrawn from circulation, by being returned upon the banks in exchange for coin now demanded for exportation. But why should the coin be demanded for exportation? Simply because the increased quantity of convertible paper had reduced the value of the currency, or, in other words, had increased prices. The withdrawal of an increased issue of convertible paper from the channels of circulation, is the effect of the reduced value of the currency or increased range of prices, which, in the first instance, that increased issue had occasioned. Mr. Tooke's process of reasoning amounts to this,—that the existence of the effect proves the non-existence of the cause."—(*Inquiry, &c.* pp. 48, 50.)

On the illustrative case here given, I have to observe, that the Bank of England does not advance loans to noblemen and others for the improvement of their estates. But granting that it does so, and that, being on a security of landed property, bank notes might be required to pass in payment between the solicitors for the lender and borrower, there would be a hundred notes, of a thousand pounds each, handed over by the solicitor of the lender to the borrower, or his agent, on the delivery of the deed. The borrower would pay the notes in to his banker, who would have them placed to his deposit account at the Bank of England. The whole of a transaction like this would, with the requisite formalities, have been completed in less than three or four hours; and the probability is, that the

notes taken out of the Bank in the forenoon, would find their way back to it by the afternoon of the same day, thus not having added a single note to the circulation.

But, even for such a purpose, bank notes are now usually dispensed with; a draft upon the Bank of England, or even upon other banks, being frequently substituted. The borrower having paid the amount in to his banker, would pass drafts on them for his expenditure; and the loan to him, therefore, would not, in the first instance, evidently, nor probably at all, entail any addition whatever to the circulation.

Here at once, *in the issue*, is a broad distinction. The advance by a bank issuing only convertible paper, does not, as we have seen, cause, necessarily, any increase of the circulation; and very rarely, if ever, to the same amount as the loan. Whereas, if the 100,000*l.* were expended by the Government, issuing its own inconvertible notes in payment, the whole sum so paid *would necessarily go into circulation, and form so much addition to the amount previously in the hands of the public.* And the same effect on the circulation would be produced if the Government advanced, in its own inconvertible notes, the 100,000*l.* as a loan to a nobleman, or other landed proprietor, to be expended in improvements.

If advances on mortgage to the same amount were obtained by a manufacturer from the neighbouring banks of issue, there would not, any more than in the case supposed of the advance by the Bank of England to the nobleman, be necessarily or probably any increase in the amount of the circulation, and certainly not to the whole amount of the advance. This would be made in the first instance by a book-credit, or by bills on London; and perhaps a portion by each mode. But no part of the purchases made by the manufacturer, or of the advances so received, would probably be made in

Bank notes; or if so made, they would return immediately to the issuing bank.

So much as to the mode of issue: the difference being that the one does not, and the other does, add, necessarily, to the circulation, the full amount of the advance for the expenditure in question. But there is more in the difference of the conditions on which the issue is made.

It is of the very essence of the system on which banks of issue, of strictly convertible paper, can be conducted, so as to ensure the fulfilment of their obligations, that their advances, whether by loan or discount, should be for such short periods, and on securities so solid and convertible, as to insure the return of the money advanced in time to meet the utmost amount of their engagements. Advances on mortgage, for terms of years, are not proper banking securities; or, if at all, are so in a small proportion only, as for the investment of a part, and a small part, of their original and paid up capital, but in no case as an investment of any considerable part of the capital deposited with them, or held against their circulation. Accordingly, the Bank of England does not make advances of the kind in the case supposed. It has, in a few instances, made advances upon the debentures of joint stock companies, such as Dock debentures and the best description of Railway Companies' bonds (the London and Birmingham only, I believe), but these have been for periods much shorter than those for which mortgages on landed property are usually made, and, in point of amount, for sums so small, compared with its capital and the mass of its securities, as not to be worth mentioning. And banks, whether joint stock or private — whether issuing or non-issuing — have almost invariably been observed to fail, if they have made advances on mortgage, or on indefinite credits, in any considerable proportion to their general liabilities. The limita-

tion of the period for which the advance is made operates in two ways, each of which, independently of the mode of issue, distinguishes the effects of a convertible from an inconvertible paper: the one is the return of the notes, if any are issued; the other is the absence of any influence on prices.

If the loans or discounts are advanced on proper banking securities, for short periods, the reflux of the notes, if any have been issued, will be equal to the efflux, leaving the circulation unaltered. If, indeed, the transactions of the district, or the trade of the country generally, require more instruments of exchange, a larger amount of notes would remain out; but this increase of the outstanding circulation would *be the effect of increased transactions and prices, and not the cause of them.* Upon this point I am glad to have the concurrence of Mr. James Wilson, as expressed in the following passage of his late publication:—

"But in all these actions, which may be exercised on prices through the currency, there is nothing whatever in the least degree analogous to the action contemplated by the modern doctrine on which the New Bank Bill is founded, and involving the assumption "that, by an expansion or contraction of the issues of bank notes at pleasure, the prices of commodities can be increased or diminished." The increase or decrease of prices here alluded to is not *nominal*, but real, and in relation to the prices of other countries; an increase or decrease which shall constitute new motives for importing or exporting commodities, as the case may be.

"The assumption before us involves two questions — first, expansion and contraction of the currency at pleasure; and, second, as the consequence, a corresponding action on prices. Many authors, in treating of the latter, as a consequence, and even combating its truth, have laboured under great difficulties, by proceeding upon the admission of the former; but if the former be admitted, we confess we cannot understand how the latter can be denied as the legitimate consequence. If, in the language of Mr. Horner, there be any means by which "the quantity of circulating medium (being convertible paper and coin) can be permanently augmented, without a corresponding augmentation of internal trade, a rise will unavoidably take place in the price of exchangeable commodities." Such means, as we have already seen, do exist in the case of an inconvert-

ible currency; but the rise in price, in consequence, is only nominal in that case, being immediately compensated to other countries by a fall in the exchange. But with a convertible currency, *if such means exist at all*, the rise in price would not be nominal, but real, as it would be expressed either in coin or notes convertible into coin, and therefore would not, as in the other case, be compensated by any fall in the exchange. But this fact shows at once the impossibility of the "*augmentation*" alluded to in the premises, when the currency is *convertible*. A currency "augmented without any corresponding augmentation of internal trade," implies a quantity of notes retained in circulation, at the will of the issuers, which the public do not require. Now, the public do not receive notes from a banker without paying interest for their use; and, however low that may be, they will take no more than they absolutely require—nor do they retain notes in their possession beyond what the convenience of trade requires; and, therefore, if issued in excess of that quantity, and, if convertible, a portion would be instantly returned upon the issuers. Nor can we conceive any means whatever by which the circulation could be so augmented; and we have deeply to regret that, although such a power on the part of banks has been taken for granted by most of the writers during the last twelve years, no one has yet attempted to explain by what process it could be accomplished; and we are compelled to think that impressions, which gained ground many years since as applicable to an inconvertible currency, have been inadvertently associated also with a convertible currency.

"The impossibility of increasing the quantity of paper in circulation (when convertible), except as the effect of a corresponding increase of an internal trade, or of any depreciation in its value taking place, will be more evident when it is considered by what process an inconvertible currency becomes depreciated. On all hands it is admitted that as long as inconvertible paper is not issued in excess, as long as coin continues freely to circulate with it, the paper will not become depreciated; but as soon as the paper is issued in excess, and the coin is pressed out of circulation, it becomes depreciated, and the prices of commodities rise in consequence; though it is only a nominal rise, which would be better expressed by depreciation of the circulation. Now, how does this depreciation and rise of price take place? During the early issue of the French assignats, no depreciation or rise in price of commodities took place until the coin was pressed out of circulation, because, as the paper was issued, the tendency to a redundant currency was constantly corrected by the withdrawal of silver, which, being a commodity having a general value in the markets of the world, could be exported or taken for the general uses of the cambist or the silversmith. But as soon as silver

was exhausted from the circulation, the issue of assignats still continuing, and the same quantity of internal exchanges only remaining, the currency became redundant, there being no means of absorption except in the existing quantities of commodities. Paper in the first place would accumulate in the hands of individuals, and as the issues of assignats continued for commodities for the use of the government, or of those receiving pay from the government, the simple law of supply and demand would reduce the value of this paper, and increase the price of commodities expressed in paper. But it will be observed that this increase of price is only in reference to paper assignats, and not to the coin which they originally represented; for the coin or bullion at this stage rose in the same proportion as other things. During the high prices in this country from 1810 to 1816, as far as they were caused by a depreciation of the currency, they were *high* only in relation to paper, and not to gold, which rose equally, and at the same time, as other commodities, from this cause. Well, then, seeing that redundancy and consequent depreciation of paper can only commence when no part of the currency consists of coin which can be exported or taken for manufacturing purposes (the paper having no intrinsic use at home, or exchangeable value abroad), it follows, as a simple corollary of those principles which have been admitted by all writers worthy of mention, that as long as paper is at pleasure convertible into gold, no such redundancy can take place, no such difference can arise between the value of gold and the value of paper, and no such general increase of prices of commodities can be experienced.

"No doubt, if the internal transactions of the country increase, or if the prices of commodities rise, a larger amount of circulating medium, whether purely metallic, or mixed of paper and coin, will be required to conduct the exchanges; and thus, though an increased circulation could not be called into existence as a cause to produce higher prices, it would follow as the effect or consequence of higher prices. But in that case, "the circulation would not be augmented *without* a corresponding augmentation of trade."—(*Capital, Currency, and Banking, by James Wilson, Esq., M.P.* London, 1847, p. 82–85.)

But while, as regards the effects on *the circulation*, there may be no perceptible difference between advances by the Bank of England and other banks of issue, whether the loans be on mortgage, for the purposes supposed in the two cases before referred to, or on discount of rapidly terminable securities, — each being an advance of capital, whether with or without the intervention of currency,— there

may be a material difference in the effect on prices. It may be conceded to Colonel Torrens, that if the advances be on mortgage, or on open credit, for a long or indefinite term, and for the purposes supposed, they may, according to their extent, constitute a fresh source of demand, and cause a temporary rise of prices, or keep them at a higher level than they could otherwise reach or maintain. But the banks, when the local circulation is already full, can make such advances only out of the capital, of their depositors, or their own. If out of their own capital, it would in nearly all cases be only a change of investment, and so constitute no fresh demand. If advances for long terms are made out of the capital of depositors, the banker may be called upon for the deposits; which, being locked up in mortgages, will not be forthcoming; upon which the banker fails, and prices, in as far as they were raised by his misuse of the capital intrusted to him, must be depressed by his failure. Or if, in times of great abundance of capital, the country banker obtained credit from his London correspondent, and ventured, on the strength of it, to make such improvident advances, the same result would follow; while discounts of good commercial bills of usual and reasonable length of date, being merely calculated to enable parties to meet liabilities previously incurred — the loans thus running off — would be unattended with the effect of disturbing prices and credit.

SECTION 6. — *On the Effects of different Modes of Issue of a Convertible and of an Inconvertible Paper. — Mr. Ricardo's. Hypothesis of a Gold Mine in the Bank.*

The eminent writer of an article in the Westminster Review (Mr. Mill), for June 1844, after

expressing his concurrence in my view of the purposes for which governments *usually* issue paper money, and thus cause a permanent increase of the circulation, makes the following remark:—

"We may add, with Mr. Tooke, that the issues of a *government* paper, even when not permanent, will raise prices; because governments usually issue their paper in purchases for consumption. If issued to pay off a portion of a national debt, we believe they would have no such effect."

This suggestion of the difference of effect, according to the purposes of the issue, opens a somewhat curious field for discussion. Suppose, for instance, that a government, having the power of creating paper money, should, with a view to raise the value of the public funds (the debt being, say one hundred millions), issue two, three, or more millions for the purchase of stock. The effect of such a fresh source of demand would be to raise the price, in other words, to reduce the rate of interest; while the purchases were in progress. All other securities would, for a time, rise in value. This rise in the value of securities, or fall in the rate of interest, would tend to force capital abroad for more profitable investment; and thus the coin might be expelled so as to make way for the addition of the paper money to the circulation, through the rate of interest, without having acted upon the prices of commodities.

The case here supposed is hardly within the range of reasonable probability, but it was worth a passing remark to follow out the idea started by Mr. Mill; and this more especially, because it will be found to bear upon one of the points of view suggested by the analogy which Mr. Ricardo assumed to exist between the effects of the issues of the notes of the Bank of England during the Restriction, and the issues from a gold mine supposed to be discovered within the premises of the Bank.

Mr. Ricardo, in his first pamphlet, introduced the hypothesis of such a discovery for the purpose of proving that the issues of the Bank of England would add to the amount of the currency in the same manner and degree as the issue of so much gold so discovered. On this assumed analogy, Mr. C. Bosanquet makes the following observations:—

"Mr. Ricardo has assimilated the Bank of England during the Restriction, so far as relates to the effect of its issues, to a gold mine, the produce of which being thrown into circulation, in addition to a circulating medium already sufficient, is an excess; and has the acknowledged effect of depreciating the value of the existing medium, or, in other words, of raising the prices of commodities, for which it is usually exchanged. But Mr. Ricardo has not stated, what is essential to the comparison, *why* it is that the discovery of a gold mine would produce this effect. It would produce it because the proprietors would issue it (for whatever services) without any engagement to give an equal value for it again to the holders, or any wish or any means of calling back and annihilating that which they have issued. By degrees. as the issues increase, they exceed the wants of circulation: gold produces no benefit to the holder as gold; he cannot eat it, nor clothe himself with it: to render it useful, he must exchange it either for such things as are immediately useful, or for such as produce revenue. The demand, and consequently the prices of commodities and real properties, measured in gold, increases, and will continue to increase, so long as the mine continues to produce. And this effect will equally follow, whether, under the circumstances I have supposed, the issue be gold from a mine, or paper from a government bank.

"All this I distinctly admit; but in all this statement there is not one point of analogy to the issue of the Bank of England." — *Practical Observations on the Report of the Bullion Committee, by Charles Bosanquet, Esq.*, 1810, p. 51, 52.

To these observations of Mr. Bosanquet, Mr. Ricardo replied:—

"Now, supposing the gold mine to be actually the property of the Bank, even be situated on their own premises, and that they procured the gold which it produced to be coined into guineas, and in lieu of issuing their notes when they ***discounted bills*** or ***lent money to government***, that they issued nothing but guineas, could there be any other limit to their issues but the want of the further productiveness in their mine? In what

would the circumstances differ if the mine were the property of the king, of a company of merchants, or of a single individual? In that case, Mr. Bosanquet admits that the value of money would fall, and I suppose he would also admit that it would fall in exact proportion to its increase."

With reference to the questions put by Mr. Ricardo, which I have marked in italics, I should say that the effects would vary *widely* according as one or other of those modes of issue were proposed. Supposing the issue of the gold to be on loan by the Bank: the effect of it, if confined to the discount of bills at short dates, or if extended to a loan to Government for a term of years, would be different. If confined to short-dated bonâ fide bills, it might take a great length of time before any considerable amount could be permanently added to the circulation, even supposing the Bank's rate of discount to be below the market rate.

The rules of the Bank at the time when Mr. Ricardo wrote were very strict, not only as to the bonâ fide character, and as to the term not exceeding sixty-one days, but as to various technicalities of form of the bills, with various delays between the time of offering the bills for discount and of receiving the answer of acceptance or otherwise.

The reflux would be constantly opposing a counteracting force to the attempts of the Bank at rendering its treasure immediately available to any considerable extent in acquiring capital in any other form. But in whatever degree the Directors were able to surmount this counteracting force, by extending their advances, it would be slowly, by discounting at a rate decidedly below the market rate of interest. The market rate, however, although higher than the Bank rate, would, by this continued operation of the Bank, be kept lower than it otherwise would have been, and lower than its ordinary level abroad.

Nor would the daily transactions arising out of their immense connexion, as a Bank of *Deposit*, in

any way add to the facilities at their command for the permanent emission of the treasure. It is clear that the efflux of gold which would take place in the payment of cheques would be balanced by the receipt of sums paid in to the credit of the several accounts. By one method, within the compass of possibility but scarcely a probable occurrence, the Bank might permanently emit a portion of the treasure through the private deposits. Assuming these deposits to be 5,000,000*l.**, if the Directors were peremptorily to order that they should run off — in other words, if they were to liquidate every private deposit account, and give the recipients no option as to the mode of payment, except that every claim should be discharged in coin of full weight and purity, it seems plain that treasure to the extent of 5,000,000*l.* would be effectually placed in circulation. Under the terms of the supposition, a measure of this kind would be tantamount to so much positive improvement in the position of the Bank. For they would have discharged a liability of 5,000,000*l.* without at the same time, and in consequence, *contracting* their assets (*i.e.* the securities on which the deposits were invested) in any degree whatever. We may also conclude with some safety that the effect of such a compulsory liquidation would, in the first instance at least, be confined to a violent operation on the rate of interest. It would in point of fact be a virtual creation of five millions of extra capital, and an almost instantaneous addition of the whole mass to the quantity of immediately available funds, seeking employment through the medium of bankers and bill brokers.

The gold, therefore, to whatever extent it might

* It will simplify the hypothesis to leave out of view the *public* deposits, the character of which, and the obligation under which they are held by the Bank, distinguishing them in so many important points from the credit balances of individuals.

ooze out in loans, would (supposing trade to be in equilibrio) in all probability be exported for the higher interest to be obtained by investments in foreign securities, or by extended credits to foreign merchants, or by outlay in mills, factories, &c. abroad. The issue of the gold through the medium of discounts of short paper only would ultimately, but *very slowly*, cause an export of it without necessarily affecting the prices of commodities. And if, instead of the slow process of discounting short bills, subject to the counteraction of the reflux, the Directors employed the gold directly in the purchase of government securities, the effect in forcing an export of the metals would be great and rapid, without perhaps, in the first instance, producing any effect on the prices of commodities; although the low rate of interest thus caused might, by inducing enterprize in the outlay of fixed capital, raise wages or extend employment of labour, and thus indirectly operate upon prices.

If the mine or treasure were possessed by the government, or, what would come to nearly the same thing, if the gold were advanced by the Bank in the way of loan for a term of years, and the government were to issue it in payments to that amount for extra expenditure in carrying on a war, or in extensive buildings, or public improvements of any kind, the effect would be exactly the same as in the outlay of so much *paper money* created for the purpose, while there remained coin in circulation, according to the hypothesis at page 186, *antè*. Prices of commodities and the wages of labour would rise; but there could of course be no indication of depreciation by a difference between coin and bullion, there being no legal obstacle to the exportation of the former any more than of the latter. The rise of prices would (things being before in equilibrio) induce increased imports and diminished exports, in other words, would turn the balance of

trade, and render the exchanges adverse in a degree sufficient to cause an export of the extra quantity of gold thus issued by the government. In this case the gold would go out of the country through the medium of prices.

But a case may readily be imagined in which, if the mine or treasure were suddenly discovered, and made available by the government, an immediate employment of the gold would not only not operate in raising prices, and thence depressing the exchanges, but would maintain the exchanges, and thus prevent the effect of depressed exchanges in enhancing the cost of production, and so raising prices.

For example, suppose that treasure, amounting to ten millions of gold, had been discovered and appropriated by the government at such a period as the close of 1808. There arose at that time, as I have elsewhere described [*antè*, p. 97.], a sudden necessity for payments to be made abroad by this country to a very large amount. If, then, at that time, the government, in addition to about three millions of specie, which it brought from the Bank to send to the Peninsula, had, according to the hypothetical case, found a mine, the produce of which, to the amount, say of ten millions, would have enabled it to make all these extra payments by the direct transmission of the amount in the precious metals, there would have been no disturbance of the exchanges, or of so much of prices as depended on the exchanges. The exchanges and the price of bullion would have remained unaltered, and prices would have been lower by the difference which the fall of the exchanges did, in the actual case, add to the cost of production; while the rate of interest would have been somewhat lower by the government having so much less to borrow.

A recent financial operation of the Russian

government supplies a case in point, illustrative of one of the modes in which a surplus metallic treasure, analogous to Mr. Ricardo's gold mine, may be actually disbursed, without affecting prices. According to the exposition of the minister of finance, in a council* held in July last (1847), the government had determined, some months before, to employ the sum of 30,000,000 of roubles, equivalent at the exchange of 40*d.*† to 5,000,000*l.*, (out of its reserve of 114,000,000*r.*, or 19,000,000*l.* sterling held against the note circulation) in the purchase of the public stocks of Russia, France, and England; the principal part to be invested in the two latter.

Without canvassing the merits of the operation, which seems, however, to have been a very judicious one, I have here to observe upon the effects of it only as exemplifying the point now under discussion. Its immediate effect was on the balance of payments between Russia on the one hand, and France and England on the other. In consequence of the extraordinary demand by the two latter countries for the productions of Russia, in the autumn of 1846 and the winter of 1847, the balance of payments became largely in its favour. The exchange on London rose to 40½*d.*, and as this rate gave a profit on the importation, a transmission of bullion to Petersburg took place to some extent.‡

But as soon as the intended operation of the

* See the Speech, Appendix.

† The exact par, I believe, is as nearly as may be, 39*d.*

‡ An amount of about 600,000*l.*, which the Bank of England held in Russian gold coin, was bought by merchants here and forwarded by land. I am not aware whether any silver went: if it did go, it must have been from France or Germany, for it did not answer to send it from hence. And as there was no mode of transmission except by land, the navigation being closed by frost, the expense of conveying so bulky

Russian government became known, namely, in February last, the exchanges gave way, and have since ranged at, from 39*d.* to 38*d.* In the mean time, so far as the mere outlay of the surplus treasure in question was concerned, it had not added, and could not add, to the amount of the circulation, or have any influence on prices in Russia.

This point may be further illustrated by reference to another operation of the same government. While it was, on the one hand, lending money to foreign states, it was, on the other, borrowing money on Treasury bills, bearing interest, in order to complete the railway from Petersburg to Moscow. Now, supposing that on that and other railways requiring an early outlay of 30,000,000*r.* the government had determined to *expend* that sum out of its surplus treasure, instead of *lending* it, the effect would have been, in proportion as the expenditure went on, to raise prices and wages; and assuming that the amount of the currency had been before sufficient for the purposes of a circulating medium, the additional coin thus added to the circulation would have been expelled, through the medium of prices; causing an adverse balance of trade and a consequent depression of the exchanges. The case would be analogous to the issue of so much *paper money* in a currency consisting of paper and coin circulating at par. The coin would be gradually expelled, through the medium of prices, to make way for the paper: as will be illustrated in the next section, in the case of the forty millions of roubles, in paper money, first issued by the empress Catherine. This is clearly the mode, and the only mode, in which, according to the theory of Mr. Ricardo and the Bullion report, the issues of Bank notes in this country were supposed

a metal as silver (bulky, I mean, as compared with gold) would probably leave little margin for profit. The probability therefore is, that a small sum *only*, if any, went.

to render the currency redundant, thus causing the adverse balance which depressed the exchanges. And, as I have endeavoured to show, a similar error, with less excuse for it, pervades the doctrines of the more modern theory of the Currency principle.

As the paper money of Russia, from its first issue till the notes were made convertible, by the Imperial edict of July, 1839, presents some curious phenomena, exemplifying several of the points now under discussion, I shall devote a section to the notice of it.

SECTION 7. — *On the Effects of an Influx of Gold, caused by a favourable Exchange, as distinguished from an Influx caused by increased Productiveness of the Mines.*

The length of the foregoing disquisition will perhaps not be thought to have been carried beyond the importance of the topic discussed, when it is considered that the point involved in it lies at the very threshold of the whole question of the currency. The impression of the perfect similarity, up to a certain point, of *paper money* to Bank notes payable in coin on demand, is very common, and forms a striking feature in the questions now at issue between the Currency theorists and their opponents. The analogy of the gold mine, it will be observed, is no gratuitous or fanciful illustration of my own. It was broached by Mr. Ricardo; and raised an important point in the discussion between him and Mr. Bosanquet. I have merely

suggested considerations which the former overlooked, and the latter has not sufficiently followed out.

In the more recent controversy to which the promulgation of the theory of the currency principle has given rise, the partisans of that theory, ascribing to the banks in this country the power of arbitrarily adding to the amount of the circulation, assume that the additional notes so issued have a partial effect on prices in this country, analogous to the general effect on prices in the markets of the world by an increased production of the precious metals, in consequence either of the discovery of new and more fertile mines, or of improved methods of working the existing ones.

Such seemed to be the impression of the members of the Committee on Banks of Issue in 1840, before whom I was examined.*

The error of the assumed analogy is so important, that I am glad to avail myself of the effective aid of Mr. J. Wilson in the exposure of it, by inserting the following passage from his recent publication entitled "Capital, Currency, and Banking:" —

"Mr. Tooke expresses his view of the case thus: — 'That the prices of commodities do not depend upon the quantity of money indicated by the amount of Bank notes, nor upon the amount of the whole circulating medium; but that, on the contrary, the amount of the circulating medium is the consequence of prices.'

"To which Colonel Torrens replies: — 'The logical accuracy of this conclusion may be tested by affirming the analogous proposition, that the prices of commodities in Europe, after the

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* In the Appendix will be found extracts from the minutes of my evidence on that occasion; and I may refer the reader to that examination, as containing a summary of the explanation I have just given of the distinction between convertible and inconvertible paper, and as to the effects on prices of the discovery of a gold mine.

discovery of the mines of South America, did not depend upon the quantity of money indicated by the amount of coin, nor by the amount of the whole of the supply of gold and silver; but that, on the contrary, the mines of South America, and the increased amount of gold and silver obtained therefrom, were the consequence of the subsequent rise of prices.'

"That this ingenious and accomplished economist should have stated these as two '*analogous propositions*,' is the most striking evidence with which we have yet met of the utter confusion which prevails in men's minds of the real nature of currency and capital—of coin as a circulating medium, and of the precious metals as a commodity of commerce; a confusion which must be so apparent to those who have followed our arguments thus far that we need not further refer to it. But some have an idea that in every case of an influx of bullion a similar effect should be experienced locally that is produced generally by an increase of metals from the mines. The difference is very essential. In the case of an ordinary influx of gold into this country, caused by a favourable state of the exchanges, the general quantity of gold is not changed, nor its relation in value to other commodities: a new distribution of it is all that takes place. To those who received larger quantities of metal from South America, in exchange for the commodities which they have shipped to that country, and in consequence of the increased productiveness of the mines, the additional quantity was, in the first place, so much increased profit, which not only enabled them to expend more money privately, but which also formed a powerful inducement to increase their purchases of goods and shipments to South America. Such additional demand for shipment to that country of woollens and cottons from England; of wine and silks from France; of flour and domestics from America, and the increased demand for articles of consumption, and for securities for investment by those who made the additional profit at first, would soon increase prices generally in proportion to the new supplies of the metals.

"But in case of an influx of bullion, owing to a favourable exchange, the case is widely different. The very fact that merchants have recourse to bullion to bring home their capital from those countries where it is not produced, is usually an evidence that other commodities cannot be imported but at a loss. In consequence of the lessened imports the exchanges turn in our favour, and at length bullion is resorted to as the least advantageous medium of transferring capital from one place to another. But this neither infers a power for an increased private expenditure, nor an inducement for a repetition of purchases for shipment, and hence we find that in practice neither circulation nor prices increase under such circumstances, but that both diminish.

"In Article II. (page 13.) we fully considered the effect of

an influx of bullion in consequence of a favourable exchange on a metallic currency, and the same precisely must take place with a mixed currency of coin and convertible notes.

"From the beginning of 1841 to 1843 we had an uninterrupted favourable exchange; the bullion in the Bank rapidly increased all the time from 3,965,000*l.* to upwards of 11,000,000*l.*; every means were used, which properly could be, to increase the circulation; but it fell, during that time, from 35,660,000*l.* to 34,049,000*l.*, and during the whole period, the prices of commodities generally were sinking lower; and in 1842, the year in which the largest import of gold took place, was the most depressed in prices, and the lowest in the circulation of any during the last thirty years. Nor were the stocks of commodities generally above an average, and the imports were much below an average; and, up to this time (April 19. 1845), though bullion has latterly increased to upwards of 16,000,000*l.*, all the recent efforts of the Bank to increase the circulation have proved unavailing, and the prices of all kinds of commodities, even in the absence of any unusual stocks, with some few exceptions, continue unprecedently low. The events of the last four years must go far to convince even those who will not exercise the patience to investigate and understand the theory, that a great error has existed in regard to the connection between Bank circulation and prices of commodities." — (*On Capital, Currency, and Banking*, p. 85. 87.)

I quite agree with Mr. Wilson in his opinion, as here expressed, of the difference of the effects on prices between an influx of gold caused by an increase of metals from the mines, and the influx caused by a favourable exchange; supposing no alteration in the quantity of them, compared with the demand, in the general markets of the world.

SECTION 8. — *Digression concerning Russian Paper Money.*

The history of the Russian paper money, from its first issue, in the reign of the Empress Catherine II., to its conversion into a convertible currency in the reign of the present sovereign, presents a more continuous record, and for a longer time, of

variations in the quantity and value of a paper currency than any other that I am aware of. The variations of its value, as indicated by the foreign exchanges, are susceptible of being more accurately appreciated than those of any other nation, inasmuch as there are regular quotations of the rate at which bills were negotiated upon London, Amsterdam, and Hamburgh, in each week during the whole time, with an exception for the occasional suspension of the communication with the two latter places. It is, therefore, particularly fitted to illustrate some of the views which have here been sketched of the character and effects of a currency consisting of an inconvertible paper, as compared with a circulation of notes strictly convertible into coin.

It was at the close of 1768, in the reign of the Empress Catherine II., that towards defraying the expenses of the war with Turkey, then entered upon, the *Bank* of *Assignats* was founded for the purpose of issuing notes payable to bearer. It was, from the first issue, doubtful in what money they would be payable. Professor Storch*, from whom this account is taken, states that the tenor of these assignats does not clear up this doubt, for they were, from the beginning, nominally, and still, at the time he was writing, 1815, purported to be, payable *in current money*. The uncertainty, however, was, practically, cleared up within a few months after the opening of the Bank. For, though at first a few payments were made indifferently in silver or copper coin, they were soon made only in copper. Now, the copper coin was overvalued by 50 per cent, compared with the uncoined metal. The semblance of convertibility was therefore inoperative. It was only a great scarcity of copper coin for retail purposes that admitted of its circulating at a *nominal*, so much

* Cours d'Economie politique, vol. vi. p. 207.

above its *intrinsic*, value. But as the notes were much more convenient in large payments, being in sums of 25 roubles, than the bulky metal, they circulated at the full nominal value of the copper coin. The whole issue was, in the first instance, limited to 40 millions of roubles; and no great depreciation attended the paper, as compared with the silver rouble, during the progress of the war. At the peace of Kaïnardji, in 1774, it rose fully to par, compared with silver. Professor Storch observes, that owing to the limitation of amount, which did not exceed the first issue of 40 millions for eighteen years, and to the circumstance that a certain amount of the taxes was required to be paid in assignats, this description of circulation was rendered so agreeable (as he says) to the public, that, until the year 1788, there was an agio, or premium, upon it of from 1 to 5 per cent against copper; and that the difference between its value and that of silver never exceeded 3 per cent in favour of the latter.

Thenceforward war, and other causes, induced additional issues, until at the death of Catherine, in 1796, the mass of paper money amounted to 157 millions, being nearly four-fold of what it had been eight years before. The exchange on London, which had been as high as 41*d.* in 1787, was at 31*d.* in 1796. During the two subsequent reigns, the further issues increased rapidly, insomuch that in 1810 the paper money in circulation reached 577 millions, and the paper rouble was worth only $25\frac{2}{5}$ copeks, being only one fourth of its value in 1788. The exchange on London fell, in the autumn of 1810, to $11\frac{1}{2}$*d.*; on Amsterdam, to 8 stivers; and on Hamburgh, to 7 skillings banco, per rouble. And the prices of all produce and commodities rose, in a proportion, greater or less, to this fall of the exchanges.

The amount of notes in circulation had, according to a statement of Count Gurieff, reached, in 1817,

836 millions. I am not aware of the amounts at different periods between 1810 and 1817; but there is every reason to believe that the issues of paper were increased in 1811 and 1812; and, at any rate, it cannot be supposed that at such a time there could be any reduction of the amount.

Now, the following facts present an important view of the great influence of the circumstances of that period in causing enormous fluctuations in the exchange, perfectly irrespective of any alteration in the amount of the currency. Immediately after the close of 1810, the exchanges rose, with considerable oscillations, the lowest quotations, however, being above those of 1810; and they advanced rapidly when the invading armies of France approached the Russian frontier. In June, 1812, the exchange on London was 16*d.*; on Amsterdam, 11¾ stivers; and on Hamburgh 11¼ skillings; and, by the latter end of September, when Napoleon had entered Moscow, the paper rouble attained the enormously advanced rates of 25*d.*, 17¼ stivers, and 16½ skillings banco. The silver rouble, and the Dutch ducat, which were respectively in 1810 at 400 copeks, and 1250 copeks, were, in different periods in August, 1812, as low respectively as 350 copeks, and 900 copeks.

This state of the Russian paper currency is not to be accounted for according to the doctrine of Mr. Ricardo, and Mr. Huskisson, and the Bullion report of 1810: for this would not allow for the violent disturbing causes then operating on the exchanges, irrespective of any alteration in the amount of the currency.

The truth is, that the circumstances operating in the great enhancement of the value of the Russian currency in 1810–12 (without the possibility of assigning a contraction of the amount of it as a cause) were exactly the converse of those which were at the same period causing an apparent depre-

ciation of the currency of this country, in so far as the foreign exchanges were an index of it.

The circumstances producing the extraordinary elevation of the exchanges in Russia were these.

The prices of hemp, flax, tallow, and other articles of Russian produce, had risen very considerably, in this country, in the autumn of 1811, and the commencement of 1812; partly from actual scarcity, and partly from apprehension that the invasion of that empire by the French armies would cut off future supplies. There were great inducements, therefore, to make purchases and shipments of produce from the ports of Petersburg and Riga, and other Russian ports, for British account, before the close of the navigation, by the setting in of winter. There were also similar purchases and shipments of produce, although on a limited scale (in consequence of the obstructions then prevailing to all commercial intercourse), made for Germany, France, and the United States. The immediate consequence was the drawing of an unusually large amount of bills upon these countries. But while there was this demand for articles of export from Russia, there was no sale whatever for imports. The native Russian merchants and shopkeepers could not be prevailed upon by any inducement of price to buy the goods which were imported into Petersburg from England, under the apprehension that, if the French succeeded in their invasion, they would proceed to the confiscation or burning of all British manufactures or produce, as they had done, not long before, in the ports of Prussia. The only remittances from Russia, therefore, were of sums collected from former sales, or as returns for gold and silver, of which some, although not large, quantities had been imported. There was, consequently, a vast disproportion, of drawers to takers of bills; and the inevitable effect was to raise the exchange, as we have seen.

Now an exactly opposite state of things was simultaneously existing in this country. There was an urgent want of the raw materials of our manufactures; cotton, especially, having become scarce and dear; and naval stores from abroad were required for our military marine. At the same time a great foreign expenditure for subsidies, and for the pay and maintenance of our armies in Spain, was going forward. Of extraordinary magnitude, therefore, were the payments to be made abroad; while as to nearly all articles of habitual export from this country there was an almost total absence of foreign demand, as has been shown by the extracts from Mr. J. D. Hume's Letters. (See *antè*, p. 106.) It is no wonder that our exchanges were depressed; nor is there any need to assume a redundancy of our currency as the cause.

Here, then, is an illustration of the point which was at issue between Mr. Ricardo and Mr. Thornton, when the former controverted the position of the latter, viz. that, upon a sudden demand for corn, or for the payment of troops or subsidies, there might be an *unwillingness* of the foreigner to receive goods from us in payment, and so the necessity might arise for sending gold, or making an enormous sacrifice in the exchange. The only answer given by Mr. Ricardo was, that we *ought not to indulge the foreigner in such unwillingness!*

Without, however, dwelling further on this point, which has been before discussed, I will proceed to observe upon the decline of the exchanges in Russia, after the extravagant rise of them in September, 1812. The fall began when it became manifest that the French army would be obliged to retreat from Russia without any attempt to reach Petersburg, and the quotations, by the end of the year, were respectively $16\frac{3}{8}d.$ $11\frac{3}{4}$ stiv. and $10\frac{3}{4}$ sk. banco. Thenceforward the decline proceeded slowly, and

with some oscillation, till October 1816; when it reached the lowest quotations of $9\frac{1}{2}d.$, $9\frac{15}{16}$ stiv. and $9\frac{3}{4}$ sk. banco, and the silver ruble was worth 400 to 410 copeks in paper. The Custom-house duties, and other taxes, had been calculated in silver rubles, and the bank notes were, after intermediate alteration, declared by the government to be receivable in the proportion of 4 to 1, thus avowing a depreciation of 75 per cent, being substantially a degradation of the standard to that extent. At this rate it continued for some time.

During the progress to this degree of depreciation, the prices of commodities experienced a corresponding advance, but subject to great fluctuation in the process.

Loans were subsequently raised, abroad, by the Russian government, in order to withdraw a portion of the notes from the circulation; and the amount of them was reported on the 1st of January, 1821, to have been reduced to 640 millions. The exchanges had, by that time, improved, so as to induce the government to admit the paper ruble in payment of taxes at 3 ro. 60, and eventually at 3 ro. 50 co. At which last-mentioned rate the conversion, from bank assignats to bank notes payable on demand in silver rubles, was ordained by an imperial ukase, dated 1st July, 1839.*

My purpose in this digression has been —

1st. To exemplify the position that government paper money may be so issued that, as in the case of the first 40 millions of roubles, a very slight depreciation only may follow; just sufficient to displace so much coin; and that, by strictly limiting the quantity, it may be maintained in circulation at, or very near to, par with coin.

2d. To shew the prodigious range of variation in the exchanges to which an inconvertible paper

* See Appendix.

currency is liable, while the amount of it may be either stationary, or tending in an opposite direction.

3d. To direct attention to the extraordinary phenomenon of a currency of inconvertible government paper, largely extended in quantity, increasing in value by 100 per cent, as an invading victorious enemy was approaching; and the value falling as the enemy were retreating; and eventually sinking to a lower level than that from which it had risen.

4th. And finally, to point out the unaccountable misapprehension which has led persons, otherwise well informed, to allege, and reason upon, the assumption of a similarity between the circulation of bank notes in this country, during the suspension of cash payments, and the Russian paper money of the same period.

I have taken occasion in a former volume* to remark upon the error of Lord Ashburton, in referring, as he did in his evidence before the Agricultural Committee in 1836, to the adjustment by the Russian government of the value of its depreciated paper, as an example that ought to have been followed in this country upon the restoration of a metallic standard.

Mr. Hubbard†, in his pamphlet on the Currency, has the following passage:—

"When a paper currency is inconvertible, it may be depreciated by its quantity being increased; and the same consequences which attend the depreciation of the coin, attend the depreciation of the paper. The circulation of paper money in Russia was raised from two hundred millions of roubles in 1799 to six hundred millions in 1811: the food of rye flour rose in price from 70 to 200 copecs; the value of the silver rouble expressed in assignats rose from $1\frac{1}{2}$ to four paper roubles; and the exchange on Hamburgh fell from twenty-six skillings to ten.

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* Vol. II. p. 67. Some, but a very small, part of the facts here introduced were then stated with reference to the opinion expressed by Lord Ashburton, that in 1819, if the feeling of parliament and the country had gone with him, he should have been inclined to propose a reduction of the standard "pound" to 15*s*.

† The Currency and the Country, 1843, page 35.

The Bank of England was restricted from paying its notes in gold; its circulation was enlarged from ten millions to thirty millions; the circulation of the private banks was similarly increased; coin was exported; and, if the general range of prices rose twenty-five per cent., the cause is to be found in the depreciation of the inconvertible currency of the country resulting from its increased quantity, and evidenced by the rise in the price of gold from 3*l.* 17*s.* 10½*d.* to 5*l.* 5*s.* per oz.; and, by the fall of the exchange with Hamburgh, from thirty-seven to twenty-eight skillings for the pound sterling."

If the view which I have sketched of the state of the circulation of the Bank of England during the Restriction has any approach to correctness, there cannot be the shadow of a ground for the statement here so confidently made, of its having been similar in its principle and effects, to the Russian paper money during the same period. They agree only in the single fact of inconvertibility. The points of difference are so striking that I am quite content to leave it to my readers to draw their own conclusions.

But I cannot help remarking upon the circumstance which I have on more than one occasion had to notice as a very objectionable (and occasionally deceptive) practice of writers or speakers, who, when seeking to prove a depreciation of Bank of England notes, in consequence of excessive quantity, state the amount in circulation without reference to the distinction of the one-pound notes from those of a higher denomination.

If Mr. Hubbard had deducted the one-pound notes, as, according to every authority — Mr. Ricardo, Mr. Huskisson, and the Bullion Report — he ought to have done, he would have seen that the circulation in 1817, when it *nearly* reached the amount he states, would, instead of being at the expiration of more than twenty years, enlarged from ten to thirty millions, be found to be increased to only twenty millions. And if he had taken the pains to examine a little further, he would have discovered that, when it reached this extreme

amount, it was perfectly consistent with a state of the exchanges and of the price of bullion fully at par, or rather so much above it, as to have raised the treasure of the Bank to a higher amount than it had ever before attained. It is really surprising to find how many persons write and speak about the circulation during the Restriction, and draw conclusions and institute comparisons regarding it, while they clearly have no sound knowledge of the real state of it at that time.

Section 9. — *On a Metallic Circulation, as the Type of a perfect Currency.*

It has been my purpose, in the preceding section, to show that the theory of the currency principle, according to the exposition of its promulgators, involves the error of confounding convertible with inconvertible paper; as regards its issue, and its effects in circulation up to the point of convertibility.

By the same authorities it is (as stated at page 167, *antè*,) assumed, as an axiom, that a purely metallic circulation is the type or model of a perfect currency; and that, therefore, a mixed circulation of coin and paper ought to be made to conform in amount to the same variations as would be incidental to a purely metallic currency. I, and those who with me are opposed to the doctrine of the currency theory, as adopted by Sir Robert Peel and embodied in the act of 1844, readily admit so much of it as relates to this assumption. We are willing to consider a metallic currency as the type of that to which our mixed circulation of coin and paper ought to conform; but, further, we contend that it has so conformed, and must so conform, while the paper is strictly convertible.* And we

* Upon this point, nothing can be more forcible or more felicitously expressed than the following passage from Mr. Ful-

deny the correctness of their view of the operation of a metallic circulation, according to their exposition of it, which I am about to quote.

Those who contended, prior to 1844, that such as is stated in the following extracts would be the operation of a metallic circulation, are naturally, *now that they have experience, so totally at variance with their anticipations* of the working of the system founded upon their model, disposed to explain away their former hypothesis. But it is

larton. "But we are told, now, that in order to preserve a mixed circulation of gold and Bank notes from depreciation, it is not sufficient that the Bank notes should at all times be convertible into coin; that, notwithstanding such convertibility, the notes may still be over-issued in such quantities as to raise the prices of all the commodities in the kingdom, and to cause the exportation of the gold, and that, to prevent such derangements, it is indispensable that the Bank note circulation should at all times be made to fluctuate exactly as a purely metallic circulation would have fluctuated. On these propositions I am content at once to join issue. I deny that we have any evidence of such a redundance of circulating Bank notes having ever existed in coincidence with a really convertible state of the currency, as to raise prices or to cause an efflux of the precious metals, or that such a redundance under such circumstances is possible. And as to *making* a Bank note circulation fluctuate exactly as a pure metallic circulation would have fluctuated, I do not see how that can be constituted into a duty, until it be first shown that they ever fluctuate differently. As a general principle, indeed, I am quite free to admit that the increase or decrease of a circulation of Bank notes, from whatever cause it may proceed, ought to correspond with the increase or decrease which a currency of metallic coin would exhibit under the same circumstances. But I go further than this: I contend that there not only ought to be such correspondence, but that there always is; that, wherever the convertibility of the paper is perfect and secured from all delay or impediment, the coin of full standard value in weight and fineness, and the traffic in the metal, whether coined or uncoined, absolutely free and unrestricted, *there the Bank issues, if left to themselves, must necessarily fluctuate in conformity with the principles which govern the supply of the standard metal, and it is only from the intervention of some such arbitrary and empirical system of restraint as is now projected that this conformity runs any risk of being disturbed.*" — (*Regulation of Currencies*, 2d. ed. pp. 26, 27.)

right to record what *were* the opinions under the influence of which such great alterations were made in our system of banking. In my pamphlet of 1844 I cited passages from the principal authorities for the theory. These and my remarks, which they elicited, I here extract and insert: —

"Admitting, for the sake of argument, that a metallic circulation is the type of a perfect currency, it should seem that those who confidently pronounce it to be so, labour under a most egregious misconception of what the working of it would be.

"Upon the grounds which I have now to state, it will be evident that the operation of a perfectly metallic circulation would not be attended with the advantages which they contemplate; nor, on the other hand, with the disadvantages which might be apprehended if it were to work as they seem to imagine it would.

"According to the currency principle, every export of the precious metals under a metallic circulation would be attended with a contraction of the amount and value of the currency, causing a fall of prices until the degree of contraction and consequent fall of prices should be such as, by inducing a diminished import and increased export of commodities, to cause a reflux of the metals and a restoration of prices to their proper level. So, on the other hand, an influx of the precious metals would raise prices, till they reached a level at which the converse of the process would take place. This oscillating process of a rise and fall of prices with every influx or efflux of the precious metals, independently of circumstances connected with the cost of production of commodities, and the ordinary rate of consumption, would be perplexing enough, and any thing but convenient to the commercial, or the manufacturing, or the agricultural community.

"The advocates, however, of the doctrine contend that, although thus the oscillations might be more frequent, the scale of them would be more contracted, every divergence being more quickly checked. I firmly believe, however, that if every export and import of the precious metals were attended with the effects imputed to them by this theory, the inconvenience would be felt to be *intolerable*, and that some of what Mr. Norman calls economising expedients would be devised and applied as a remedy.

"But the operation would not be that which the theory, as it is stated in the following passages, supposes:—

"'It is universally admitted by persons acquainted with monetary science, that paper money should be so regulated as to keep the medium of exchange, of which it may form a part, in the same state, with respect to amount and to value, in which the medium of exchange would exist were the circulating portion of it purely metallic. Now, it is self-evident, that if the circulation were purely metallic, an adverse exchange, causing an exportation of the metals to any given amount, would occasion a contraction of the circulating currency to the same amount; and that a favourable exchange, causing an importation of the metals to a given amount, would cause an expansion of the circulating currency to the same amount. If the currency of the metropolis consisted of gold, an adverse exchange, causing an exportation of gold to the amount of 1,000,000*l.*, would withdraw from circulation one million of sovereigns.'—TORRENS. (*Letter to Lord Melbourne*, pp. 29, 30.)

"'The amount of the import or export of the precious metals is a pretty sure measure of what would have been the increase or decrease of the amount of a metallic currency.'—S. J. LOYD. (*Further Reflections on the Currency*, page 34.)

"And Mr. Norman, after explaining the manner in which the exchanges, as between two countries, A. and B., may be rendered adverse to A., so as to cause an export of coin or bullion, goes on to say,—

"'The export of coin and bullion will cause general prices to fall in country A., and to rise in B., supposing the debt to B.

not to be sooner discharged, until it becomes more advantageous to export goods than money.' "—(*Letter to C. Wood, Esq., M.P.* page 17.)

"In these passages, and many more that might be cited, it is assumed that the precious metals, gold, and silver, and bullion, are synonymous with currency and money, and are convertible terms. And, accordingly, every export of the precious metals is not only considered, in the supposition of a metallic circulation, as a contraction of the currency of this country; but as so much added to the currency of the country to which it is exported. Such alteration in the relative quantity of the metals in the respective countries from which or to which they are transmitted being, according to this theory, an abstraction or addition of so much money; and prices, that is, the general prices of commodities, being considered as depending on the quantity of money, a corresponding rise or fall of them is assumed to be the consequence. In this view some very important considerations are overlooked.

"Before entering upon them, however, I must premise, that throughout this discussion the value of gold in the commercial world is assumed to be constant, *i.e.* that the cost of production and the general demand are unvaried; also that the tariffs of foreign countries are in *statu quo*, so as to confine the consideration to the effects of an influx or efflux of bullion on the currencies of the respective countries, divested of any reference to disturbing causes, beyond those incidental to the course of trade and international banking.

"There is, and must generally be, in a country like this or like France, a stock greater or less of gold and silver, beyond that which is in use as money or as plate, or which is in the mint, and in goldsmiths' and silversmiths' hands, in preparation for use as either. This surplus or floating

stock may be considered as seeking a market, whether for internal purposes or for export; and, be the quantity greater or less, can it be said of it, if it is exported, that the amount is so much abstracted from the currency of the country, any more than if an equal value of tin or zinc, or lead or iron, were exported?

"Moreover, of that part of the stock existing in the shape of coin in this country it may be observed, that as the coinage is not subject to a seignorage, there may be, and frequently is, in that shape a considerable amount of the precious metals which may not be in the hands of the public, circulating as money, nor in the reserves of the different banks, the Bank of England excepted; but may, like the uncoined metals, be seeking a market at home or abroad. It may be in the coffers of the Bank of England; but held as bullion, being in the shape of coin equally convenient for every purpose, and more convenient for some purposes, in that form, besides that of serving for currency, than in uncoined gold, that is, in bars or ingots.

"The idea of gold seeking a market, and not immediately finding one, may seem strange, and, by the firm believers in the currency-principle doctrine, may be set down as paradoxical and absurd.

"Gold is an object in such universal demand, or, in other words, so universally marketable, that its being supposed to be kept on hand at all, under the uncertainty of finding a suitable market for it, appears to be inconceivable, or almost a contradiction in terms.

"I am ready to admit that gold is a commodity in such general demand that it may always command a market, that it can always buy all other commodities; whereas other commodities cannot always buy gold. The markets of the world are

open to it as merchandise at less sacrifice upon an emergency, than would attend an export of any other article, which might in quantity or kind be beyond the usual demand in the country to which it is sent. So far there can be, I presume, no difference of opinion.

"But there will be found to be no inconsiderable difference, if we distinguish as we ought to do, for the purpose whether of theory or practice, between gold considered as merchandise, *i. e.* as capital, and gold considered as currency circulating in the shape of coin among the public.

"Mr. Senior, in one of his lectures on the value of money, observes, 'The value of the precious metals as money must depend ultimately on their value as materials of jewellery and plate; since if they were not used as commodities, they could not circulate as money.' And he makes a remark to the same effect in an article in the 'Edinburgh Review,' for July, 1843, on Free Trade and Retaliation. 'The primary cause of the utility of gold is of course its use as the material of plate. The secondary cause is its use as money.' Of the truth of these propositions there can be no doubt.

"As this country is not only a large consumer of the precious metals for purposes other than money, but is also an entrepôt for receiving from the mines, and distributing the greater portion of the quantity applicable to the consumption of other countries, the bullion trade, totally independently of supplying the currency, must of necessity be very considerable. In resorting to this entrepôt the metals can only be considered as merchandise in transit, seeking a market for consumption either in this country or abroad.

"But beyond the stock which is requisite for this purpose, and which must always include more or less of surplus to meet occasional extra demand, there must be a very considerable amount of the

precious metals applicable and applied as the convenient mode of adjustment of international balances, being a commodity more generally in demand, and less liable to fluctuations in its market value than any other. I will not venture, in the absence of any recognised grounds for computation, to hazard an estimate of the amount so required; but, bearing in mind the immense extent of international transactions, and the vicissitudes of the seasons, and other circumstances affecting the relative imports and exports of food, raw materials, and manufactures, besides the variations in the market value of national and private securities held interchangeably, the quantity of bullion required to be constantly available for this purpose must be very large; the principal deposits of it being in the Bank of England, the Bank of France, and the public banks of Hamburg and Amsterdam. These deposits may, moreover, in some of the public banks, be occasionally increased by coin which has become superfluous in the circulation.

"If, therefore, we take into account the magnitude of the stock necessarily imported, partly for the consumption of plate in this country, and partly for that abroad, and of the amount required as available funds for the adjustment of international balances, it may not be deemed an extravagant supposition that there might occasionally be under a perfectly metallic circulation fluctuations, within moderately short periods, to the extent of at least five or six millions sterling in the import and export of bullion, perfectly extrinsic of the amount or value of the coin circulating as money in the hands of the public, and perfectly without influence on the general prices of commodities, as equally without general prices having been a cause of such fluctuations.

"It may be objected that the quantity of bullion which I have supposed to be in deposit among the

principal public banks of the commercial world, applicable to the adjustment of international balances, should be looked upon as performing the functions of money, in restoring the level of the currencies, which the very fact of the necessity for the transmission of money from one country to another proves to have been disturbed. This objection is founded on the assumption that gold and silver are money or currency, and it is supposed that the transmissions of bullion for the purposes in question have a direct operation upon the amount of money or currency in actual circulation in the several countries. But in this objection the consideration is overlooked, that the coins only which enter into, that is, form part of, the internal circulation of the country, can be designated as currency, while bullion can only be viewed in the light of capital.*

"The distinction between bullion, as merchandise or capital, and coins, as money or currency, may be exemplified in the case of coins which are subject to a seignorage, and in cases such as that of Hamburg, where the money current for all the ordinary expenditure of income consists chiefly of a variety of foreign coins, passing from hand to hand at a conventional value, while all mercantile payments are made by transfers of capital,

* With the exception of Mexican dollars, this being the form in which the produce of the silver mines of America is mainly distributed, and Imperials, the golden coin of Russia, being the form in which the extraordinarily large and increasing produce of the Asiatic provinces of that empire is adding to the general supply of the precious metals; and further excepting the gold coins of this country, which, being issued without any charge whatever for manufacture, are found to be for some purposes of export more convenient than bars or ingots: with these exceptions, the instances are rare in which, unless depreciated at home by compulsory paper money, the coins usually circulating as money are withdrawn to supply foreign payments of any magnitude.

deposited in the form of fine silver, and called bank money.

"In such a case as that of Hamburg there have been, and must often again be, very great fluctuations in the amount of silver in the bank, and, consequently, of bank money, without any obviously corresponding variations in the amount of money in circulation for current purposes of expenditure by the community, or any variation as arising from that cause in the general prices of their commodities. And if a seignorage were imposed on the gold coin of this country on correct principles (that is, accompanied by a limitation of tender, and by a power on the part of the holders to demand gold bullion at *3l.* 17*s.* 10½*d.* per ounce), there might be, and there would be, occasionally, supposing a purely metallic circulation, a very considerable variation in the amount of bullion in the coffers of the national bank, or in the hands of dealers in bullion, without necessarily in the slightest degree affecting the amount of the currency actually in circulation, in the ordinary daily transactions arising out of the expenditure of individuals composing the public, and without variation in general prices."—*Inquiry into the Currency Principle*, p. 6—15.

SECTION 10.—*On the Distinction between Currency and Capital; and on the actual and imputed Functions of Country Bank Notes.*

Totally unaware as the authors of our new system were of the distinction between currency and capital, when applied to the distinct functions of the precious metals, of serving, in the shape of

coin, for internal purposes, and of capital when transmitted abroad in liquidation of an adverse balance of trade; still more striking, if possible, has been their disregard of that distinction in our internal exchanges.

I have before had occasion to notice the different uses of bank notes, with a view to point out the error of the currency theory which classes the two denominations together, as substitutes for coin. Dr. Adam Smith, in the following passage, has noticed the distinction between the two kinds of bank notes, and has, accordingly, in his views of our paper currency, steered clear of the confusion between currency and capital which pervades and disfigures most modern reasonings on the subject: —

"The circulation of every country," he observes, "may be considered as divided into two different branches — the circulation of the dealers with one another, and the circulation between the dealers and consumers. Though the same pieces of money, whether paper or metal, may be employed, sometimes in the one circulation and sometimes in the other, yet as both are constantly going on at the same time, each requires a certain stock of money of one kind or another to carry it on. The value of the goods circulated between the different dealers with one another never can exceed the value of those circulated between the dealers and the consumers, whatever is bought by the dealers being ultimately destined to be sold to the consumers. Paper money may be so regulated as either to confine itself very much to the circulation between the different dealers, or to extend itself likewise to a great part of that between the dealers and the consumers. When no bank notes are circulated under ten pounds' value, as in London, paper money confines itself very much to the circulation between the dealers. When a ten pound bank note comes into the hands of a consumer he is generally obliged to change it at the first shop where he has occasion to purchase five shillings' worth of goods, so that it often returns into the hands of a dealer before the consumer has spent a fortieth part of the money."— *Wealth of Nations, M'Culloch's edition*, pp. 141, 142.

Upon this passage there are the following remarks in my tract of 1844: —

"There can be no doubt that the distinction here made is substantially correct. Bearing in mind this distinction, the reason is obvious why, as far as relates to the interchange between dealers and consumers (including the payment of wages, which constitute the principal means of the consumers), coin, and the smaller denomination of notes serving as coin, are essential to such interchange, and why, consequently, if those smaller notes are withdrawn, their place must be supplied by coin; but not so as regards the interchange between dealers and dealers. Bank notes are not only not essential to that interchange, but it must be manifest to any one having even a slight knowledge only of the manner in which such interchange is conducted, that, in point of fact, bank notes are rarely used in the larger dealings of sales and purchases.

"The great bulk of the wholesale trade of the country is carried on and adjusted by settlements or sets-off of debts and credits, the written evidences of which are in bills of exchange (including in that term all promissory notes payable to orders after date), while current payments, for what are called cash sales, are mostly discharged by cheques; the ultimate balance only arising out of the vast mass of such transactions requiring liquidation in a comparatively small amount of bank notes. The principal exceptions to this, I apprehend, are in the provision trade, and in the sheep and cattle and horse fairs, in which the payments are mostly made in coin and bank notes; but there can be no question that for amounts of 10*l.* and upwards, bills of exchange might be, as they formerly were, and, but for the increased stamp duty, would be substituted.

"Of the fact that, with the exception of these, and perhaps of some few other wholesale trades in which no credit is given, there is little or no intervention of bank notes in purchases or sales

among wholesale dealers, no doubt can be entertained. And I have now to state the explanation, which I am not aware of having met with among the various lucubrations on the subject of the currency which it has been my lot to see, of the reason why, with the exceptions I have pointed out, such sales and purchases are effected without actual payment in money, which, by the currency theory, is defined to be coin or Bank notes.

"The reason is that all the transactions between dealers and dealers, by which are to be understood all sales from the producer or importer, through all the stages of intermediate processes of manufacture or otherwise to the retail dealer or the exporting merchant, are resolvable into movements or *transfers of capital.* Now, transfers of capital do not necessarily suppose, nor do actually, as a matter of fact, entail, in the great majority of transactions, a passing of money, that is, bank notes or coin — I mean bodily, and not by fiction — at the time of transfer. All the movements of capital may be, and the great majority are effected by the operations of banking and credit without the intervention of actual payment in coin or bank notes, that is, actual, visible, and tangible bank notes, not supposititious bank notes, issued with one hand and received back by the other, or, more properly speaking, entered on one side of the ledger with a counter entry on the other. And there is the further important consideration, that the total amount of the transactions between dealers and dealers must, in the last resort, be determined and limited by the amount of those between dealers and consumers.

"The business of bankers, setting aside the issue of promissory notes on demand, may be divided into two branches, corresponding with the distinction pointed out by Dr. Smith of the transactions between dealers and dealers, and between dealers

and consumers. One branch of the banker's business is to collect capital from those who have not immediate employment for it, and to distribute or transfer it to those who have. The other branch is to receive deposits of the incomes of their customers, and to pay out the amount, as it is wanted for expenditure, by the latter in the objects of their consumption. The former may be considered as the business behind the counter, and the latter before or over the counter; the former being a circulation of capital, the latter of currency.

"The distinction or separation in reasoning of that branch of banking which relates to the concentration of capital on the one hand and the distribution of it on the other, from that branch which is employed in administering the circulation for local purposes of the district, is so important in its bearing on the question of regulating the circulation by the foreign exchanges, and on that of the connection between the currency and prices, that the fullest elucidation of the practical operation of that distinction may naturally be required. I have, therefore, as the best method of elucidating this point, drawn largely on the examinations by the Committee on Banks of Issue in 1841; and if it be objected that more than enough of the evidence is here adduced for the purpose, seeing that the point is so clear when simply stated, my answer to the objector is, that simple and clear as the distinction may appear to him, so imbued were the members of the Committee who took a prominent part in the examination, with the tenets of the currency theory, as to have remained apparently (judging at least by the reiteration of their questions to the same effect) unconvinced of the powerlessness of the banks of issue to influence directly the amount of the circulation of bank notes. And even to this day, with all the light of subsequent

experience, it should seem, judging by speeches and publications, and the declamations against excessive paper issues, which still appear occasionally on the subject, that the dogma of the power of banks of issue to create paper money* *ad libitum* prevails to nearly as great an extent as ever.

"All the country bankers examined concur in stating that they have not the power by loans or discounts beyond the ordinary transactions of the neighbourhood to extend or contract the local circulation of notes, or to influence prices. They could, indeed, refuse to issue their own notes in answering the demands of their depositors, but such refusal must be accompanied by offering Bank of England notes or coin, and thus the local circulation would be equally filled up; they may curtail or call in their advances, and so diminish their engagements, and eventually render a smaller amount of circulation necessary; but the immediate demands for notes for local purposes must still be satisfied.

"It appears by that evidence, that their circulation is devoted and confined to local purposes, chiefly in small amounts, for the retail trade; and in the rural districts in advances to farmers for the purchase of stock and seed, and to cattle dealers and provision merchants; but that when called upon to make advances by way of loan or discount on a larger scale, it is always by a draft or order upon London, or upon such of their correspondents in other towns as happen to suit the borrowers—such loans or discounts being invariably made out of capital, or, in other words, out of the general resources of the bank.

"Among the country bankers of England, I

* By *paper money* being always understood, according to the doctrine under consideration, bank notes in the hands of the public.

have selected the evidence of Mr. Stuckey, the head of the admirably conducted banks of Somersetshire under his firm, because there is no one more conversant, both theoretically and practically, than he is with the subject of banking. By his position formerly he was in intimate communication with Lord Liverpool and Mr. Huskisson. He was examined by the Bullion Committee in 1819. He was an adherent to the principles of the late Mr. Ricardo; and he expressed opinions of the desirableness of having the circulation of bank notes regulated by a view to the foreign exchanges. But what is the result of his very large experience as a banker?"

"477. (*Chairman.*) Do you conceive that, generally speaking, there is an insuperable difficulty in country banks exercising such a control over their own issues, as to reduce them to some extent during a period of adverse foreign exchange?

"*I really do not see how that is to be done.*

"478. Then what is the practical effect of the regard to foreign exchanges, which you think all country bankers ought to pay?

"The practical effect is to make them more cautious and circumspect in the management of their money transactions; but I should not state, that in the agricultural districts, the circulation would be altered by the foreign exchanges.

"479. Do you conceive, that although the country bankers ought to pay regard to the state of the foreign exchanges, it is not in their power to bring that regard into practical effect by reducing the amount of their issues during the period of adverse exchange?

"*I do not see how it could be done.*

"480. Will, then, the regard which you recommend they should pay to the foreign exchanges produce any practical effect whatever upon their issues?

"Yes, it would produce effect in the management of their monied concerns.

"481. What practical effect would it produce on their *issues?*

"*Very little:* my own opinion is, that country issues have very little to do with exchanges.

"482. Would the regard which you recommend to the foreign exchanges produce any effect upon their issues?

"*Very little:* it would produce some effect upon the management of their monied concerns.

"483. (*Sir T. Fremantle.*) Upon their liabilities?

"Yes.

"484. *But comparatively little on their issues?*

"*Yes:* particularly in the agricultural parts of the country.

"485. Upon what do you think the issues of the country bankers depend?

"More on the state of agriculture than any thing else. When the landed interest is in a comfortable state, I consider the issues to be increased.

"491. (*Sir T. Fremantle.*) The advance which you make to the agriculturists is an advance of capital, whether it is paid to them in your own notes, or Bank of England notes, or gold?

"Yes; the advance is generally made to agriculturists in our own notes.

"492. But if the state of the country is such as not to require an increase of your own issues, you are quite sure that those notes will come back to you in the course of a short time?

"Exactly.

"493. Therefore the advance that you make in that case *is an advance of capital, and not an advance of mere issue?*

"*Exactly; it is made out of our resources.*

"501. (*Chairman.*) Will you state how you are affected by foreign exchanges?

"I think the London banker is affected by them, therefore I am affected; I naturally know that if my deposits are withdrawn, and any demand is made upon me, I must sell my securities; therefore I look to the foreign exchanges in order to ascertain how the money market is, that I may know what securities I shall dispose of.

"524. (*Chairman.*) Suppose the case of an adverse foreign exchange, when, according to your own opinion, the paper circulation of the country ought to be reduced, would you, on a depositor asking for the payment of a deposit in notes, be at all guided by the circumstance of the foreign exchanges, as to whether you paid that deposit in Bank of England notes, or in your own local notes?

"*I admit that I should not be guided by the foreign exchanges*, but I should be guided by knowing where the deposit money was to go to.

"525. (*Sir T. Fremantle.*) You have stated that when you have observed gold going out of the country, and money becoming tight in London, you have been in the habit of issuing directions to your different branches to be more circumspect in the advances they make; has the effect of that been practically to diminish the amount of your notes in circulation in those districts?

"*I do not think it has; I am not aware that it has.*

"526. What has the effect been?

"To make them *more cautious in their advances*, keeping our resources more within our own command; instead of discounting a bill, which we should discount under some circumstances, we have refused it; and instead of advancing 1000*l.* or 2000*l.*, we have desired the person to take 500*l.*; therefore we keep our banking capital and banking resources more under our own command.

"527. But are you prepared to say that the circulation of your own notes has not been affected by that course of conduct?

"*I am not aware that it has.*

"537. Supposing, for instance, it should ultimately be thought that it is desirable that the country circulation should have a general conformity to the state of the foreign exchanges, do you conceive that this could be in any way effected by the country bankers?

"*I do not at present know how it could be accomplished;* and I may take the liberty of going further in that question, and saying that it appears to me that the country issues, as conducted in the west of England, have very little or nothing to do with the foreign exchanges.

"538. Do you conceive, then, that the only circulation which ought to have reference to the foreign exchanges is that of the Bank of England?

"I do conceive that it is the only thing which ought to have reference to them, being the circulation of London, and London being the spot where the foreign exchanges are generally effected.

"539. (*Mr. Grote.*) Do you mean to state that you think the circulation of the Bank of England ought to be made to vary in conformity with the foreign exchanges, but that the circulation of the country banks ought not to be affected by the foreign exchanges?

"No, I do not go so far as that; my opinion is that the country circulation does not affect the foreign exchanges, because it is a different kind of circulation; the foreign exchanges are, we all know, affected in various ways, but I do not think they are affected by the country circulation, and I have looked attentively at that question."

"The evidence of Mr. Gilbart, of the London and Westminster Bank, of Mr. Hobhouse, of a bank at Bath, and of Mr. Rodwell, of a bank at Ipswich, is full of information as to the circumstances which influence and limit the country circulation without the possibility of reference to the ex-

changes. But as these gentlemen do not profess ever to have entertained an opinion of its being desirable, if it were practicable, to regulate the country circulation by the foreign exchanges, I have preferred a reference to Mr. Stuckey's evidence, he having entertained and professed an opinion that it was desirable, but had made the discovery, confirmed by long experience on a very extensive scale, of its utter impracticability.

"Mr. Gurney was examined on this point by the Committee on the Bank Charter in 1832. I have before had occasion to notice his evidence at some length*, and will now only refer to the concluding part of it:—

"Does it not follow from what you have said, that an over-issue of notes of country bankers cannot easily be effected?

"*My belief is that it cannot be effected by any act of the country bankers.*"

"As far as this point is concerned, it might perhaps be deemed to be sufficiently proved by the evidence already adduced. But not the evidence only on this point is confirmed, but also much additional light is thrown on the distinction between capital and currency, by a view of the Scotch system of banking. The examinations of some of the managers of the Scotch banks by the Committee in 1841, are accordingly well worthy of attention as illustrative of that distinction.

"The evidence of Mr. Alexander Blair, treasurer and manager of the Bank of Scotland, which is the oldest of the chartered banks, having been established in 1695, and which appears to be conducted with great ability and prudence, is full of valuable information as to the machinery and working of the Scotch system of banking.

* History of Prices," vol. iii. p. 193.

"He mentions a curious fact relating to the mode in which the balances resulting from the exchanges twice a week among the banks are adjusted by the means of Exchequer bills which, to the amount of 450,000*l.*, they hold for that express purpose. Here we have Exchequer bills answering all the purposes that Bank of England notes at the clearing-house in London do.

"Mr. Blair also states that seven millions in amount of notes is found to be requisite in order to keep up an *average* circulation of three millions — a very curious fact, as it appears that the stamp duty is paid upon the whole stock, whether in the hands of the public, or within the walls of the banks, and that the whole amount is out in circulation for a few days at two seasons of the year.

"It is stated, moreover, upon the same authority, that the total amount of deposits which, in 1826, was computed to be about twenty-one millions, had in 1841 reached to about twenty-seven millions.

"It is a remarkable circumstance that, while there has been a great extension of banking capital, and of banking accommodation, and of banking competition, in Scotland since 1826, the amount of the aggregate circulation has considerably diminished. What a commentary upon the received doctrine of the power of banks to increase their issues of paper money as suits their interests or convenience; and that it is the effect of the competition of banks of issue to create a vast mass of worthless paper.

"Mr. Blair gave the following statement of the increase of banking accommodation in Scotland:—

"There are about 380 bank offices in Scotland, of which 348 are branches. The population may be stated at 2,500,000; thus there is one bank for every 6600 individuals.

"There were in 1825, 167 offices, of which 133 were branch banks. The population being then 2,200,000, there was one bank to every 13,170 individuals.

"The amount of notes exchanged per annum by the banks of Scotland is believed to be not under 100,000,000*l.* delivered, and 100,000,000*l.* received. The Bank of Scotland alone delivers 10,000,000*l.*, and receives in exchange as much."

"But the immediate purpose of my reference to the evidence of Mr. Blair and other managers of the Scotch banks, is to show that they do not and cannot regulate their *circulation* by the foreign exchanges; and that, when they make advances, it is out of their capital or that of their depositors, without any direct influence on their circulation: that they attend to the conduct of the Bank of England in regulating their *advances*, which, however, have no immediate influence on their *circulation.*

"Mr. Blair was asked by the chairman,—

"Do you conceive that the amount of notes in circulation should be regulated in any way with reference to the state of the foreign exchanges?—I conceive that the loans and discounts of banks should be regulated with reference to the state of the foreign exchanges, *but I would not consider it necessary to regulate the circulation by the foreign exchanges.*

"1879. (*Mr. Grote.*) Then, is it your opinion that, at the same time when the Bank of England is contracting its circulation, for the purpose of correcting an unfavourable exchange, the provincial banks should proceed in the same track, and contract their circulation also?

"I think that they should consider the action of the Bank of England, at that time, with reference to their general rules of discount. *I would beg to leave the circulation out of the question;* I would say that the banks should look to the amount of their loans and discounts under such circumstances; and, at the same time, I would say, that the Bank (of England) should keep a large reserve, to be determined by their past experience and observation, for which, to the extent it is held for public account, they should receive compensation.

"1880. Then, is it your opinion, that at a period when the exchanges are unfavourable, and the Bank of England are contracting their circulation, the provincial banks ought to be more cautious in granting loans and discounts than they were before?

"Certainly.

"1881. (*Sir J. R. Reid.*) Does your bank act upon that principle?

"It does."

"The examinations, however, of Mr. Kennedy, manager of the Ayrshire Bank, and of Mr. Anderson, of the Glasgow Union Banking Company, went more particularly to the question of the distinction between capital and currency; and their evidence is calculated to throw great light on this point.

Mr. Kennedy is asked—

"2092. (*Mr. Grote.*) You stated that the causes affecting the quantity of your notes which were out in circulation at any time, were, in your opinion, independent of the action of the foreign exchanges?

"I did.

"2093. But you also stated that at the time when the foreign exchanges were unfavourable, and when there was a pressure upon the money market, you thought it imperative, as a measure of prudence, to realise some of your reserves and to call in funds from Edinburgh or London?

"Yes, that is an accurate representation.

"2094. Then do you not think that that act of yours, in bringing into your country funds realised in Edinburgh or London is, in point of fact, tantamount to your acquiring for yourself a certain portion of the London currency or the Edinburgh currency, inasmuch as the local increase of your currency is not at that moment tantamount to the increase of the aggregate currency of the country?

"But we do not bring into our country the Edinburgh or London money. The diminution of our reserves takes place in this way: parties have payments to make in Edinburgh or London, or other places, and we draw upon our reserves there to meet those payments, *but we do not bring down gold or Bank of England* notes from the London market in order to pay them away in our country.

"2095. Though you may not actually bring down gold or Bank of England notes, is not the effect of your diminishing the amount of your reserve in Edinburgh and London, and increasing by that means the advances to certain local borrowers, *tantamount to bringing down so much of the Edinburgh or London currency into your locality?*

"*I cannot see that I bring any currency down;* it is merely a payment made in London, or in Edinburgh, from one party to another.

"2096. Will you describe in what way your reserves are usually kept?

"In easy negociable securities, such as exchequer bills and short-dated bills of exchange, money lying in our bankers'

hands in London, and in other parties' hands in London, and money lying in our agents' hands in Edinburgh and Glasgow, and other places.

"2097. Suppose you sell so many thousand exchequer bills either in London or in Edinburgh, of course the proceeds of those exchequer bills are placed to the credit of your agent, whether your Edinburgh agent or your London agent?

"Yes.

"2098. In that case, when you direct those funds to be paid out, *you do in point of fact dispose of an equal amount of London currency or of Edinburgh currency* for the purposes of your bank?

"Yes.

"2099. Then, in point of fact, do you not consider that you are enabled by means of *that portion of the London currency or the Edinburgh currency*, of which you thus acquire the disposal, to obtain a certain increase of the amount of notes in your own district, and does not that, in point of fact, occasion a certain *diminution in the London or the Edinburgh currency*, which may be set against the increase of your own local issues at the time?

"But when I give a draft upon the London agent I do not in consequence of the increased sum that I have put at his command give out notes for it. I give a draft upon London, payable to some party in London; the money is paid over in London, so that I do not make an issue upon that.

"2100. But *the quantity of currency* which is available to other parties in London or Edinburgh is diminished by that portion which you draw for your own use?

"*I do not see how it diminishes the quantity of currency in London: it merely transfers it from one party to another.*

"2101. If you were not to employ that portion of *the London currency which you acquire* by realising your exchequer bills, that portion would be at the disposal of some other person in London, for the purpose of granting accommodation to London borrowers?

"*But I do not take it out of London; it is still in the hands of some party in London.*

"2102. But if by means of that operation you are enabled to extend your accommodation to your local borrowers, you do make it serviceable to the wants of your district, and is it not tantamount, in point of fact, to a transfer of so much capital from employment in London to employment in Ayrshire? is not that the general effect of the operation?

"That may be the effect of it; *but it has no effect in diminishing the amount of the currency in the London market.* I do not bring out of London any currency; I merely take the currency from one party in London, and give it to another.

"2103. Do you not bring down from London to Ayrshire a certain portion of capital which was before in London?

"I do not see that.

"2104. If the effect of this transaction be to enable you to supply the wants of borrowers in Ayrshire, which otherwise you could not supply, surely that does amount to a transfer of so much of your banking capital from London to the country?

"It is rather more the payment of a debt due by some parties in Ayrshire to some parties in London."

"Mr. Kennedy is right: the operation is the mere transfer of a debt. The Ayrshire bank is creditor of a bank in London to the amount of 1000*l.*, and passes its draft on London for that sum; the person or firm that takes and pays for the draft of the Ayrshire bank has a payment to make to his correspondent in London. The transactions balance each other. The ultimate balances, as between Scotland and England, must be adjusted by an increase or diminution of the funds possessed in England by the Scotch banks; and in some cases, although not frequent, nor to any considerable amount, there may be a transmission of Bank of England notes or coin.

"Notwithstanding the clearness of this evidence, the following questions, put by the Committee, as to the distinction between capital and currency, in the subsequent examination of Mr. Anderson, manager of the Glasgow Union Banking Company, will show the little impression produced by it on the examiners:—

"2323. (*Chairman.*) Do you at all attempt to regulate your circulation by the state of the foreign exchange?

"*Not the circulation:* we regulate our business by the state of the foreign exchanges, but we consider that the circulation does not require any regulation; *our advances and loans we regulate, but not the circulation of our notes.*

"2324. Do you conceive that the circulation is sufficiently regulated by your simply answering the demands of your customers?

"I think so.

"2335. Do you conceive that the consequence of restrain-

ing your loans and advances is to produce any effect upon the amount of your circulation?

"*No immediate effect upon the amount of our circulation.*

"2336. Does it eventually?

"The circulation is eventually affected by the langour that follows a pressure: when wages are low and people are out of employment, there is less money circulating among them, and our circulation is diminished, but the immediate effect of a pressure *is not to diminish the circulation.*

"2337. Does then any diminution of the circulation which takes place *arise from a less demand on the part of the public, and not as the result of any greater caution on the part of the Bank?*

"*Exactly.*

"2338. (*Mr. Grote.*) But the effects you have described imply an increased demand on the part of the public at such periods of your circulation?

"It is an increased demand for money*, but not for circulation.

"2339. When those demands are made, in what manner do you supply them? is it not by an increase of your own notes?

"In most cases an increased demand comes upon us in the shape of orders upon London, or orders upon Manchester or Liverpool: the pressure upon us is chiefly from the South, and extra demand from London, Liverpool, and Manchester we feel as the first indication of pressure; it is not from our own immediate districts.

"2340. (*Chairman.*) Do you mean that your customers have demands upon them, which it is necessary for them to discharge in Manchester, London, and other places?

"Yes, that is to a considerable extent the case.

"2341. (*Mr. Grote.*) In what manner do you enable your customers to make those payments, which you have to make in Liverpool, or London, or Manchester?

"By giving them orders upon our agents and correspondents in those places.

"2342. You direct a certain portion of the funds which you have in London, or Liverpool, or Manchester to be applied to that purpose?

"We do.

"2343. Then, in point of fact, you make those advances not out of your own local currency, but out *of a certain portion of the London currency,* upon which you have a demand?

"*No; I think that does not precisely describe the operation. It is our capital:* it is capital which we have collected in Scot-

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* It is quite clear that by *money* the witness means capital, as distinguished from circulation.

land, and placed in London for that purpose: *it is not London currency* lent to Scotland, *but it is capital* belonging to Scotland that has been placed in London, and is now applied to the purposes for which it is wanted.

"2344. But if you direct payment to be made in London, this payment must be made by means of the notes of the Bank of England, which alone circulate in London?

"Of course.*

"2348. When increased demands are made upon you by your customers in Glasgow, do you not answer those demands by means of your own local notes, and not by orders upon London?

"Certainly: our circulation from Tuesday to Friday, and from Friday to Tuesday again, is increased upon this occasion; but *we do not reckon that circulation,* because we know that it is immediately to return upon us, and that it is an advance, not of circulation, but of capital; it becomes at the next exchange-day *an advance of our capital.*

"2349. You feel satisfied that the increase of notes which you might make at that period would immediately come back upon you in the exchange, and that you would be required to pay them by orders on London?

"Yes; or by exchequer bills in Edinburgh.

"2361. Do you not, by means of this increased amount of advances in the extraordinary periods to which the questions have alluded, add to the means of purchasing goods possessed by the persons who borrowed from you?

"Yes, we do.

"2362. And is not that practically tantamount to *so much increase of circulation* in the local districts in which your loans take place?

"*I think not of circulation; I think it is capital;* because the notes we pay out are not retained for days or weeks to make the purchases; they are paid immediately to some other bank, and come back to us upon the exchange, and *they become an advance of capital* by us to the party, to enable him to make his purchases.†

"2363. But although ultimately it comes to be an advance

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* The question and answer are both wrong. The former assumes that the payment *must* be made in Bank of England notes, and the latter acquiesces in the supposed necessity: they *may* be paid, and most commonly *are*, by set-off at the clearing-house.

† It is impossible to place in a clearer light the distinction between capital and currency, as applied to transactions between dealers and dealers.

out of your capital, yet for a certain time it is an advance made by means of your circulation only, without the aid of your capital?

"For two or three days it is.

"2364. For a certain time, longer or shorter, as the case may be?

"It cannot, I think, be longer than till the next exchange-day with regard to those extra advances.

"2365. (*Mr. Gisborne.*) Practically, has it more effect *in giving power of purchasing* goods in London, than if you gave them a draft upon your banker in London?

"*No; I think not.*

"2366. (*Mr. Grote.*) But during the period which elapses between the time of your making the advance originally in your own notes, and the time when you give the order on London, in consequence of the notes coming back to you, during that interval, whether it be long, or whether it be short, must there not be an increase of the circulation of the country generally?

"I think that brings us back to the question which has been so much discussed here, viz. whether deposits form a part of the circulation. *Those notes which we pay out do not remain out;* they must be paid back either to us or to some other bank, in the shape of deposits, till they are to be used, and *they do not increase the permanent circulation of the country*, unless for a day or two, scarcely for even a day.

"2367. (*Sir James Graham.*) What proportion of the people of Scotland receiving notes employ bankers?

"A very large proportion of the people of Scotland employ bankers; we have been inquiring into that since we came together. One of the gentlemen here, who is at the head of a bank with a large number of country branches, informs me that the number of creditors of his bank is 20,000. In our case, I have a return since I came to town, making the number in our bank 15,770; and one of the gentlemen who is here, and who is at the head of a bank without branches, says that he has 7000 people holding his obligations.

"2368. (*Mr. Grote.*) Deposit accounts?

"Yes; deposit accounts, or current accounts bearing interest.

"2369. (*Sir James Graham.*) Inasmuch as every payment into a bank, whether in the shape of a deposit, or to the credit of a current account, bears interest day by day, and inasmuch as no commission is charged upon operations on an account, and inasmuch as a great proportion of the people receiving money in Scotland employ bankers, does it not follow that every payment made in local notes finds its way almost immediately within the space of twenty-four hours into the hands of some banker?

"I think it does.

"2370. (*Mr. Grote.*) Would not the consequence of that proposition be, if followed out, that there should be no notes whatever in the hands of the public, but that all the notes issued by each bank should be in fact in the hands of other banks?

"That is the effect. There are three millions of notes out, which is a very small amount; *people must have a certain amount of money in their pockets and boxes at home, and shop-keepers must keep a certain amount of money in their tills*, the daily receipts of their business; *and manufacturers must keep notes to pay people's wages, and so on*; but that altogether forms but a small proportion compared to the circulation of England. Our three millions in Scotland amount to about 1*l.* per head of the whole population; in England, although you have a gold circulation for every thing below 5*l.*, your paper circulation amounts to 2*l.* a head. I am taking about fifteen millions for the population, and thirty millions for the currency."

"The distinction between currency and capital, which is so clearly shown by these remarkably intelligent witnesses, is not a mere matter of classification or of verbal criticism. The confounding of one with the other is a prolific source of fallacy in reasoning, and of error in practical application, in questions relating to the management or regulation of banks.

"Of this a striking instance was exhibited in the reasons adduced by the advocates of the currency theory, in justification of the advances made by the Bank of England in 1835, against the deposits on the West India loan. The justification proceeded on the ground that, but for those advances *the currency would have been unduly contracted.* What the notion could be of undue contraction of the currency, that is, of an inconvenient want of bank notes in the hands of the public or of the bankers, as long as any amount might be obtained by discount at 4 per cent., passes all reasonable comprehension. The truth is, that it was wholly a question of disposable capital; and was it possible to imagine that there could be any

danger of an insufficiency of it, at a time when the disposal of it was so recklessly going forward in credits to America? While as regards the circulation or currency, there is every reason to believe, on a view of the state of things at that time, that the amount would have been neither more nor less than it was, whether the advances had been made or withheld."—*Inquiry into the Currency Principle*, pp. 34–54.

If the questions which elicited these answers of the country bankers be examined, it will be observed that the only members who appeared to apprehend the point of view suggested by this evidence, although they did not follow it out to its consequences, were Sir James Graham and Sir Thomas Fremantle. On the other members who took part in the examinations, the evidence seems to have made no impression whatever.

Sir Robert Peel, it appears, from an indifferent question or two that he asked, was present at these examinations. Whether he saw the comments upon them in my tract, which was published some weeks before the announcement of his measure, may be doubted. It is highly probable that under the overwhelming pressure of public business, he had not time, among the thousand-and-one pamphlets that solicited his attention, to notice mine; or, if he chanced to look at it, he may have been so prepossessed with his own views, founded on the doctrine of the currency theory, as not to consider my suggestion of the distinction in question, worthy of being attended to, and still less of being followed out to its practical bearing upon the measure which he had then in contemplation. To have admitted it would have unsettled the bundle of opinions* he had already made up, and in pur-

* I remember hearing of a gentleman who was so tenacious of his opinions, when once formed, that he would not entertain

suance of which he had probably concocted his scheme, and already determined to carry it out.

The following passage of his speech exhibits in a striking point of view, how completely his mind was made up to acquiesce in the doctrine of the currency principle as an axiom, an ultimate truth; and how, consequently, it had become inaccessible to any idea that could call into doubt or question the infallibility of that truth:—

"I also attempted to show," he said, "from the admission of the representatives of issuing banks, that their practice was at variance with *the principle which ought to regulate a paper currency;* that there was no reference to the exchanges; that as it was once said by a private banker, 'there is no more regard to the exchange than to the snow on the mountains.'"

He nowhere, however, attempts to prove the truth of the principle, according to which he assumed that they could, and that they ought, so to regulate their issues.

If there had been the smallest opening in his mind for the admission of an idea militating with the principle that the *circulation* ought to be regulated by the foreign exchanges, and that the country bank system was vicious because its issues were not so regulated, he could hardly have failed of perceiving, and drawing the fair inference from, the fact, that while the bankers, one and all, declared their inability so to regulate their issues, meaning their note circulation *, they took into consideration,

or listen to any question or doubt that was calculated in any way to disturb them. When pressed, his answer used to be, that his opinions were like well-bound bundles of fagots; you could not take one out, nor put a fresh one in, without disturbing the rest, and loosening the whole bundle; and this would put him to the trouble, which he had no wish to encounter, of binding up his bundle afresh.

* Mr. Goulburn, who was Chancellor of the Exchequer when the measure of 1844 was under discussion, and might be

in the regulation of their advances (being the only part of their business which they could control), the state of the money market in London, and the position of the Bank of England; this being, in substance, equivalent to a regulation by the exchanges. What more could be expected?—what more could be desired of them? The employment of their capital and credit they did so regulate; and that only was within their power. Over the amount of notes which their advances or discounts would call forth they had no power, and still less could they limit or enlarge the amount which their depositors would require.*

supposed, from having been one of the Committee on Banks of Issue in 1840-1, to have obtained some insight into the nature of the country note circulation from the explanation given by the bankers of the circumstances that determined their issues, thus stated his view of it in the debate of the 13th of June:—

"The country bankers said that they generally regulated their issues *by a consideration of prices* in their respective neighbourhoods; that when prices were high *they put out their issues*, and when they were low they contracted them."

* The following passage, from a very able article in the Quarterly Review for June last, will serve to show how very different is the country circulation from the currency notion of it:—

"The distribution of the greatest masses of the provincial circulation, so far from being coincident with the districts of greatest population, greatest trade, and greatest activity and enterprise, is in point of fact coincident with the districts where population and trade are alike of the most stationary character. Thus, the gross local circulation of Yorkshire is not more than 1,500,000*l.*, and of this sum only one third finds employment in the manufacturing and mining districts, while two thirds are distributed among an agricultural population very nearly one-half less in numerical strength, and occupying a still lower comparative position with reference to all the elements of commercial activity and importance.

"The largeness of the circulation of the agricultural banks is every way as remarkable. So constant is this phenomenon, that in running the eye over the *Gazette* returns, published under the Act of 1844, whenever a sum extraordinary from its magnitude attracts attention, it will be found, with very rare

If a glimpse of this light had broken in upon Sir Robert Peel he would have seen that, in his parade of machinery to limit the amount of the note circulation of the country banks, he was dealing with a very small part of their business*; the whole effect of his troublesome machinery being, not to prevent the enlargement of the entire amount of the circulating medium of the country districts under certain circumstances, when, according to the theory, it ought to be contracted, but to sub-

exceptions (and those admitting of explanation), to belong to a rural locality. The maximum circulation for example of the oldest of the Boston banks is 75,000*l.*, that of the oldest of the Birmingham banks is 23,000*l.*; the circulation of the Yarmouth bank is 53,000*l.*, that of the bank at Hull is 29,000*l.*, and the Bank at Saffron Walden has an issue very nearly as large as the oldest of the banks at Leeds—the Saffron Walden figures being 47,000*l.*, and those of the bank at Leeds 53,000*l.*

"It may perhaps be said that this line of argument does not meet the real question—that it does not prove that banks of issue have not the power of emitting their notes *ad libitum*, but simply that the emission is larger in the regions of agriculture than in those of trade. But in truth that is the very point. According to the currency school, the amount of issue is regulated by the intensity of the demand for pecuniary accommodation on the one hand, and by the inclination to meet it on the other. But it will hardly be maintained that the bankers of Boston are exposed to solicitations more urgent than the bankers of Leeds, or that the atmosphere of competition is more intense in a country town of Lincolnshire or Norfolk, than in the busiest marts of the West Riding or of Warwickshire."—(*Quarterly Review*, July 1847, p. 240.)

* As one among other instances of the small proportion which the note circulation of country banks bears to their liabilities, it may be worth while here to notice the recent case of the North and South Wales Bank, which suspended its payments in October last. It appears by the statement laid before the creditors, that the total liabilities of the bank amounted to 491,073*l.* Of this amount the notes in circulation were only 35,710*l.* The deposits amounted to 326,798*l.*, and other liabilities made up the larger sum. The assets were shown to amount to 643,741*l.*; and it was arranged that the bank should be reopened with additional capital.

stitute Bank of England notes or coin for the country bankers' notes. This may be considered an advantage by that numerous class of persons who have a horror of the country circulation from what they have heard, and what they repeat by rote, of the excessive *issues* of the country banks: misusing, as they do, in this and in other instances, the term *issues*, so as to mean by it sometimes the mere note circulation, and at other times, the advances made by way of loans or discounts, whether these be attended with the passing of any notes or not.

The same want of perception of the distinction between currency and capital which led Sir R. Peel to attach such importance to the note circulation, as that part of the liabilities of the country banks which exclusively demanded legislative regulation, seems to have led him, in adherence to the currency principle, to consider the note circulation as that part of the liabilities of the Bank of England which required to be controlled in amount by the variations in the amount of its treasure: thus proving himself to be totally unaware that it was in the banking department, involving the receipt and distribution of capital, that lay the source of any inconvenience or danger arising from any want of prudence in the management; while the amount of the note circulation was not and could not be under the direct control or regulation of the directors, but depended upon the wants and convenience of the public.

It is impossible in my opinion to exhibit in a more striking manner the great error which pervaded Sir Robert Peel's views on this point, than by the following passage in his speech of the 6th of May, 1844.

"We think that the privilege of issue is one which may fairly and justly be controlled by the state, and that *the banking business*, as distinguished

from issue, *is a matter in respect of which there cannot be too unlimited and unrestricted a competition.*"

Now I venture to affirm that this is *exactly the reverse* of the conclusion which can alone be legitimately derived from a correct view of the nature of the separate functions of, and of the distinction between, currency and capital. To the extent to which regulation is desirable or admissible, it is, fact, much more required to avert the dangers of excessive competition of banking than of issue.

But it seems that the great, the redeeming quality, whatever other objections there might be to the scheme, as regarding both the country banks and the Bank of England, was held out to be *the securing by it of the convertibility of the paper*, and consequently the maintenance of the metallic standard.

The question of convertibility of Bank of England notes I propose to examine when the operation of the act of 1844 comes under consideration.

In the ensuing section the discussion will be confined to a comparison of our country banks with the banks of the United States.

SECTION 11. — *On the alleged Insufficiency of Convertibility to prevent excessive Issues of Bank Notes, as asserted to be proved by the History of the American Banks.*

I have never yet met with a more lax use of terms, nor, consequently, greater confusion of ideas, than is to be found in the opinion of Sir Robert Peel (loudly echoed by his followers in the debates on the measure of 1844), that convertibility,

while subject to competition in the issue of bank notes, was no security for the maintenance of the standard of 1819. After declaiming upon the enormity of the country bank system, which did not admit of its note circulation being regulated by the foreign exchanges, he goes on to say, —

"Thus it appears to me that the conclusions of reason against unlimited competition of issue are amply confirmed by the admissions of the advocates for it. Are the lessons of experience at variance with the conclusions we are entitled to draw from reason and from evidence? What has been the result of unlimited competition in the United States? In the United States the paper circulation was supplied, not by private bankers, but by joint stock banks established on principles apparently the most satisfactory. There was every precaution taken against insolvency; *un*limited* responsibility of partners—*excellent regulations* for the publication and audit of accounts, *immediate convertibility into gold.* If the principles of unlimited competition, controlled by such checks, be safe, why has it utterly failed in the United States? How can it be shown that the experiment was not *fairly* made in that country?"

Strange as it may seem, yet such is the fact, that a similar reference to the example of the banks of the United States, in proof that convertibility of bank notes is no safeguard for the standard, was made by each of the prominent supporters of Sir Robert Peel's measure in the debate of the 20th of May. Thus Sir C. Wood: —

"We are not without experience as to the value even of convertibility as a safeguard for the preservation of the standard." —"In America the convertibility of bank notes is a fundamental article of the constitution; provisions more stringent than in this country are enacted *to enforce it in practice; every precaution is taken to render the banks safe and sound.* They

* This may be a misprint, but it is repeated in the speech of the 20th of May 1844, as published by Mr. Murray. There is no doubt, I believe, that the liability of the banks in the United States is in all, or nearly all, cases *limited.*

are all joint stock banks, with *limited* liability and restrictions on issues,* paid up capital, and whatever other precaution can be devised for this purpose. What has been the result?"

Then follows the quotation of a statement of the number of banks, their capital and circulation, furnished by Sir W. Clay, with the remark:—

"In May of that year cash payments were suspended throughout every state of the Union."

"And," Sir Charles Wood adds,

"There was an end of course of any maintenance of the standard of value."

Sir William Clay made the same allusions to the instance of the banks of the United States, as proving the insufficiency of the principle of convertibility to maintain the standard.

But perhaps of all the changes thus rung upon the convertibility of bank notes in America, as proving that in England it was no safeguard for the standard, the most curious specimen is in the speech of Mr. Goulburn on that occasion.

"Was there not then in the United States," he asked, "a paper that was perfectly convertible? Was there not then a precise regulation that every note should be payable on demand in coin? Still, in consequence of competition, there was an excess of issues; and this, though there was a perfect publicity as to accounts, a rigid inspection by the government, and a rigorous control; and yet from the competition of issues they reduced the country to that state, that, as the honourable gentleman himself had said, they overlooked morality, and suspended cash payments. There was no want then of a convertibility of paper *enforced by law;* but *the competition of issues defied all law,* and made every man in the community anxious to increase the cir-

* Here *limited* liability is included among the precautions calculated to render the banks safe and sound. And so far Sir C. Wood seems to agree with Sir W. Clay, who has strongly and perseveringly urged that the principle of limited responsibility should be extended to our banking system generally.

culation in order that he might be able to promote his own wild speculations."

Before remarking upon these strange attempts of the several speakers to support and illustrate their position, that the convertibility of bank notes, as it was restored and is established in this country by the act of 1819, and has ever since been faithfully complied with, is no security for the maintenance of the standard, by a reference to the state of banking in the United States of America, I have to call the attention of my readers to the description given by Mr. M^cCulloch and Mr. Fullarton of American banking.

In the edition of 1844 of his great work, the "Commercial Dictionary," in the article on "Banks (foreign)," Mr. M^cCulloch has the following very emphatic passages:—

"Had a committee of clever men been selected to devise means by which the public might be tempted to engage in all manner of absurd projects, and be most easily duped and swindled, we do not know that they could have hit upon any thing half so likely to effect their object as the existing American banking system. It has no one redeeming quality about it, but is from beginning to end a compound of quackery and imposture. Our own banking system is bad enough certainly; but is as superior to the American as can well be imagined. A radical reform of the latter, or if that cannot be effected, its entire suppression, would be the greatest boon that can be conferred on the Union, and would be no small advantage to every nation with which the Americans have any intercourse."—(p. 113.)

With reference to the "excellent regulations" for the prevention of abuses and irregularity of which Sir Robert Peel, and his supporters in the debate, spoke in terms of such high approval, Mr. M^cCulloch has the following decisive statement:—

"But our readers need hardly be told that these elaborately contrived regulations are really good for nothing, unless it be to afford an easy mode of cheating and defrauding the public. Instances have occurred of banks having borrowed an amount

of dollars equal to half their capital for a single day, and of such dollars having been examined by the inspectors appointed for that purpose, and reported by them, and sworn by a majority of the directors to be the first instalment paid by the stockholders of the bank, and intended to remain in it.—(*Gouge's Paper Money and Banking in the United States.*) We do not of course imagine that such disgraceful instances can be of common occurrence; but what is to be thought of a system which permits a company for the issue of paper money founded upon such an abominable fraud to enter on business with a sort of public attestation of its respectability? The publicity, too, to which the American banks are subject, is injurious rather than otherwise. Those who are so disposed may easily manufacture such returns as they think most suitable to their views, and the more respectable banks endeavour for a month or two previous to the period when they have to make their returns, to increase the amount of bullion in their coffers by temporary loans and all manner of devices. The whole system is in fact bottomed on the most vicious principles. But it is unnecessary, after what has recently occurred, to insist further upon the gross and glaring defects of American banking."—(p. 114).

The passage from Mr. Fullarton is as follows:—

"Another topic which has also been much alluded to in the course of these discussions has been the disastrous results of the banking system of the United States of America; and no topic certainly could well be more unfortunate for the argument of those who desire to substitute a more diffused use of the precious metals in the circulation of this country in the place of the now existing system, which tends to the concentration of the reserves of gold in the hands of a single presiding body. I take it in the first place to be altogether a gratuitous assumption, that the banks of the United States contributed to the commercial disasters of that country chiefly by the excesses of their circulation, instead of the more obvious and undeniable agency of their unlimited facilities of credit. But no person, who has given any attention to the evidence respecting the state of the American paper circulation, will venture to affirm, that, even previous to the universal and spontaneous suspension of cash payments in May 1837, that circulation was really and practically convertible. The system wanted, in the first place, two of the indispensable conditions of perfect convertibility, namely, a single and properly regulated national metallic standard, and, secondly, a limited subsidiary currency of small money issued by authority. In the United States, they possess in fact no metallic standard whatever, or at least they possessed none previous to their large recent coinages of gold. Almost every

coin under heaven is a legal tender there, at a certain rate fixed by tariff; and, not very long ago, the quantity of foreign gold in circulation there was supposed to be as nine to one in proportion to the circulation of their own eagles. The effect was, that the bankers, when required to cash their notes, paid them in the coin which, for the time, was cheapest; and parties requiring a supply of Spanish dollars, the very money in which they keep their accounts, for transmission to India or China, could not procure them from the banks, but had to buy them in the market at a premium seldom under 1 or 2 per cent., and which has been known to rise even to 7½ per cent. But, in fact, the banks of that country were, in a manner, virtually protected from demands for coin by the peculiar habits and ideas of the people. It was a point, we are told, so universally understood, that bankers ought not to be called upon for any payments in cash, which might have a tendency to cramp or limit their usual accommodations to the public, or might have any object beyond the mere convenience of fractional payments, that, however much a man might be in want of a sum in specie for exportation, he would be deterred from applying to a bank for the supply, from the fear of becoming a marked man in society. Then the wide-spread practice of issuing dollar notes, half-dollar notes, and even quarter-dollar notes, introduced another element of depreciation, somewhat similar to that which existed in Ireland in 1804, and which must have been still more pernicious in a thinly peopled country like America, where those small notes would so frequently be liable to be cut off altogether by distance from the places of their origin. To crown the whole,—for some time previous to the last suspension of cash payments in America, the banks there had fallen into the habit of advancing to the merchants in post-notes at four, six, and eight months' date; thus adding to the small-note abuses of the Irish, the evils of the optional-note system of the old Scotch bankers."—(*Regulation of Currencies*, pp. 184–6.)

Loose and ambiguous as is the language, and confused as is the reasoning which marks the whole of the speeches from which the passages I am now commenting upon have been taken, there is no part of them to me more inexplicable than their confident allusion to the American banks. What possible meaning can the persons so using the word convertibility attach to it? By convertibility of the paper, according to the ordinary signification of the term, when applied to bank notes in this country, is meant that the holder of a promissory

note, payable on demand, (and equally indeed of a bill of exchange, or any other written obligation, when due,) may require payment in coin* of a certain weight and fineness; and in the event of refusal or demur, such payment is enforced by law against the issuer to the utmost extent of his property. The issuer, whether a private or joint stock banker, is considered to have failed, the circulation of his notes is at an end, and he is subject to the process usual in cases of insolvency; while any thing like fraud on the part of the banker is visited with severe penalties.

In this country, too, the strict regularity of the periodical exchange and liquidation of notes among all the issuing banks, whether private or joint stock, is well known. These exchanges take place once a week, at least, and in all the larger towns as often as twice or three times in the week. This regulation (which is not nominal, but rigidly acted upon) is most important, insuring a constant reflux, and thus operating as a limitation of the amount of outstanding notes.†

Moreover, the banks in America are under limited responsibility; while in this country, with the exception of the Bank of England, the Bank

* The legal tender clause, allowing Bank of England notes to serve as payment instead of coin, does not essentially affect the argument.

† It is a fact of much importance to the present argument that there was no regular system of note exchanges among the American banks. They were in the habit of retaining each others notes, and deferring indefinitely the period of settlement, by a payment of the balance in cash. It is from this cause that in all American banking statistics the columns of "Notes of other Banks," and "Claims on other solvent Banks," assume so imposing an appearance. For example; to select a case more than usually favourable to the system, the official Report of the Bank Commissioners for the State of New York for 1834, represents that among 76 banks, within their jurisdiction, this description of credits alone amounted to a *seventh part*, or. 15 per cent. of the entire assets of the whole 76 establishments.

of Ireland, and one or two of the chartered banks in Scotland, the issuing bankers are liable to the whole extent of their property. And while, in the United States, notes of as low a denomination as a dollar, and, in some instances, down to quarter dollar, that is, from *four shilling* down to *one shilling notes* were in circulation, the lowest denomination allowed to circulate in England and Wales is five pounds.

Now, I would ask, wherein is the similarity, as to any one of these particulars, between the convertibility of bank notes in this country, and the asserted convertibility in America? Could the holder of a bank note in the United States, at the period alluded to, reckon on receiving payment in a well-defined standard, or could he reckon on receiving any payment at all, on demand, from banks professing to be solvent, excepting in their own depreciated notes, the circulation being, as it was, maintained in some parts of the Union, only by the notes of the failing banks passing from hand to hand at a discount?

In each of the speeches I have quoted, great stress is laid on the legal precautions and regulations adopted in America to preserve convertibility; but if, as is notoriously the fact, these regulations and precautions are, from the habits of the people, and the imperfect administration of the law, set at nought in practice, is there any resemblance to that

The figures will be found at length in the New York Almanack for 1835, at p. 212. With the aid of so many devices for securing the immunities of an *inconvertible* issue under the guise of *convertibility* on demand, it can excite little surprise that in seven years the number of banks in the Union was increased very nearly threefold*, and that in the end they were overtaken by almost universal bankruptcy.

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* In 1830, the number of banks was 330; in 1837, it was 829.

state of things in this country? As Mr. Goulburn, with great *naiveté*, expresses it, "There was no want of convertibility *enforced by law*, but the competition of issuers *defied all law*." This, indeed, is at the bottom of the whole of it. The law was ineffectual against the habits of the community.

I must confess myself amazed, when I reflect that persons of so much intelligence, and possessed of such attainments and reasoning powers as those whose speeches I have quoted, could bring themselves to adduce the banking sytem of the United States as affording cases in point, illustrative of, or by any possible similarity applicable to, the state of banking in this country. Such exemplifications as these are really monstrous—an outrage upon all that I have ever understood as recognized rules of reasoning from analogy.

It is just possible that, in the speeches I have quoted, "convertibility" may be confounded with "solvency." But here again is a difficulty. We have recently, under the existing law, had failures of issuing banks; but can it be said that such failures could, even if there had been more of them, be considered as proofs that convertibility is not a safeguard for the standard?

Upon the confusion between convertibility and solvency, as also upon the convertibility of Bank of England notes, I have already remarked.

SECTION 12.—*Summary of the Argument against the Theory of the Measure of* 1844.

I have now to bring to a conclusion my examination of the arguments adduced by Sir Robert Peel, and his immediate followers, in support of

the *principle* of so much of the measure of 1844 as provides for the limitation and regulation of that part of the business of banking which consists in the issues of promissory notes payable to bearer on demand.

In the course of my examination of Sir Robert Peel's exposition, I have endeavoured to show —

1. That the definition of money contended for is not sanctioned by any admitted authority, nor justified by any legitimate process of reasoning.

2. That bank notes, convertible as they are in this country, and forming a part of its paper credit, are confounded with government paper money.

3. That, as a consequence of that confusion, the amount of the note circulation is assumed to be variable at the will of the issuers, this being controlled only by the necessity of conversion through the operation of an adverse exchange.

4. That, as a further consequence, the amount of bank notes, in our mixed currency of paper and coin, is erroneously supposed to have an influence on prices different from that which would occur with a purely metallic currency.

5. That the properties and the operation of a purely metallic currency are wholly mistaken in the exposition of the theory of the Currency principle.

6. That the distinction so important in reasoning, and in practical application, between currency and capital has been wholly overlooked in that theory.

And, finally, that the theory so sought to be explained and established, as forming the grounds for the measure of 1844, is, in every point of view, erroneous, proceeding, as it does, on an ambiguous use of language, on unfounded assumptions of principles and facts, and on false analogies.

If any of my readers should be desirous of seeing a more complete exposure of the defectiveness of

Sir Robert Peel's chain of arguments in support of his theory than is to be found in my examination of it, I would refer them to Mr. J. Wilson's work which I have before quoted; and at pages 49 to 95 they will find an elaborate, exhaustive, and admirably lucid argument in refutation of the assumptions which Sir Robert Peel advances in the support of the theory, according to which he considers that the paper circulation of this country should be regulated. The examination by Mr. Wilson of the assumptions on which Sir Robert Peel has proceeded is thus introduced:—

"These principles, and the course pursued by Sir Robert Peel, necessarily involve the following

"FIVE ASSUMPTIONS.

"*First*, That bank notes, though payable in coin, at the option of the holder, are still liable to be issued in excess, and are consequently subject to depreciation.

"*Second*, That convertibility is not alone a sufficient guarantee that a mixed currency of bank notes and coin shall conform, in its variations, to the same laws that would regulate a purely metallic currency.

"*Third*. That issuers of bank notes have power to increase or decrease the circulation at pleasure.

"*Fourth*, That, by an expansion or contraction of the issues of bank notes at pleasure, the prices of commodities can be increased or diminished; and,

"*Fifth*, That, by such increase or diminution of prices, the foreign exchanges will be corrected, and an undue influx or efflux of bullion, as the case may be, will be arrested.

"We think it will be admitted that these five propositions fairly represent the principles involved in Sir Robert Peel's measure, and maintained by those who advocate and support it. In the face of such an array of personal weight and authority, including the most expert and practised politicians of all parties, and men the most accomplished in economical science, it has not been without the most careful and diligent process of investigation and reflection that we have arrived at a conclusion that these propositions, which at first sight startle any thinking mind, as involving principles contradictory to those generally received as regulating ordinary mercantile pursuits, are not only *not true* and supportable by fact, but are, in every instance, nearly the *reverse of truth*."

I cannot easily imagine that any person (not a professed adherent of the currency theory, whose bundle of opinions is made up, for of such there is no hope,) can rise from a careful perusal of Mr. Wilson's searching examination of these five assumptions without coming to the conclusion that the vaunted principles of the measure are *entirely destitute of any foundation in fact or reasoning.*

SECTION 13. — *On the former Monetary Crises, asserted by Sir Robert Peel to prove the danger of over-issue of Convertible Notes.*

Having concluded the examination of the theory on which Sir Robert Peel founded his measure, we have now to examine his statement of the reasons by which he was induced to put aside the entire system of banking, according to which the note circulation had been administered prior to 1844.

Towards the conclusion of his speech of 20th May, 1844, after assuming that he had made good all the links of his argument, he appeals to the experience of the twenty years preceding, as proving the necessity of interference by the legislature to *restrict the amount of the Bank note circulation.*

"Let us," he says, "review the several periods recurring within the last twenty years, when there has been a derangement in the monetary affairs of the country, — when, in order to maintain the convertibility into gold, there has been the necessity for a sudden contraction of issues. There have been, I think, four such periods, — in 1825, in 1832, in 1835–36, and in 1838–39. Now we all adhere, or profess to adhere, to the principles of a metallic standard, and convertibility of paper on demand; but it is said we have not sufficient grounds for interference with the existing system. Why, what warnings have we had during the last twenty years? (Hear, hear.) What we say is, that there have been in this country four great monetary crises.

These crises took place in the years 1825, 1832, 1837, and 1839. In each it is *proved** that there was *an over-issue of country bank-paper;* thus establishing the principle for which I am contending. But, says an honourable member, 'the Bank of England will have the power of saving itself.' The Bank may support the convertibility of its own notes, but at a great sacrifice. This is a result which I am anxious to avoid."

He then proceeds to notice the excessive issues in three of those years; in the two last, however, of which only are the actual issues known.

The question of the alleged excess of country issues has already been disposed of.

My purpose in referring to this passage of Sir Robert Peel's speech is, to show how loose is the statement of facts in this as in other instances which he has brought forward in support of his arguments. He here includes 1832, as one of the four periods when there has been a derangement in the monetary affairs of the country. This might at first be supposed to be a casual error; and, being an important one, he might be expected to have discovered and corrected it in a subsequent speech. So far from this, however, he repeats, with full emphasis, in his speech on the 13th of June, 1844, the same statement, *including* the year 1832.

I shall have something to say on each of the other three periods; but just now I confine myself to the year 1832. As regards that year, then, it so happens, and proof in abundance may be adduced of the fact, that there was not the slightest approach to any thing like what, by the utmost licence of exaggeration (so strongly marking the whole of the statements in the speeches of Sir Robert Peel on this occasion), can be called

* There is no authentic proof of the amount of the country issues in 1825 — nothing but conjectural estimates. And as to 1832, there is no statement, that I have seen, conjectural or otherwise.

monetary derangement. Nor had there been any during the two preceding years in which the drain referred to was taking place. The early part of the drain was coincident with, if not in some measure caused by, the French and Belgian revolutions. Our political affairs, both foreign and internal, were in a very disturbed state; the funds had fallen very considerably; and there were also large importations of foreign corn. But notwithstanding this combination of untoward circumstances, there was no disturbance whatever of banking or mercantile credit. There was not the slightest derangement of monetary affairs — not the vestige of a commercial crisis. The statement of Sir Robert Peel therefore, including the year 1832 as one of those marked by monetary crisis, is in every sense of the word incorrect, or as nearly as possible the reverse of the actual state of facts.

Much, however, as this instance of incorrectness is calculated to damage his statement, I should not dwell further upon it, were it not that the circumstances of 1832 seem to form the *cheval de bataille* of the currency theory. Mr. Loyd, both in his evidence in 1840 (Ques. 2712 and 2713,) and in his writings, (and if I recollect rightly, Mr. Norman likewise,) has instanced the drain ending in the year 1832 as one in which by early and steady *contraction* of the circulation on the part of the Bank a crisis was actually averted. In his latest publication*, soon after the bill of 1844 had passed, Mr. Loyd observes upon the fact that in the case of the drain ending in 1832, "*a decrease of bullion had been accompanied by a decrease of circulation corresponding steadily with the bullion in its progress.*" But the simple facts so stated would not have made much for the currency theory, because they amounted only to coincidence,

* Thoughts on the Separation of the Departments of the Bank of England. 1844.

without necessarily or obviously leading to an inference of the relation of cause and effect. In order therefore to make the case subservient to the theory, Mr. Loyd proceeds to observe —

"Enough has been stated to establish this very remarkable fact —

"That in three out of the four occasions on which the bullion has sustained a very heavy drain since the resumption of cash payments in 1819, the paper circulation has been increased rather than diminished; and these have all terminated in severe pressure upon credit and trade; viz. in 1825, 1837, 1839, whilst in the remaining case the drain was *met* from the commencement by a corresponding decrease of paper circulation, and this passed off *without discredit or distrust of any kind.*"

The words in italics are so in the original, with the exception of the word *met*, which I have so marked. In Mr. Loyd's evidence, the expression is, "the fourth drain, namely, that from 1830 to 1832, was *met* by a contraction on the part of the Bank of England." Of this the meaning clearly is, that the Bank took measures *designedly* (for if it did not mean this, it could not mean any thing to the purpose) out of the ordinary course of its routine, to contract, or, as the word implies, *forcibly* reduce its circulation. This it could only do by restricting accommodation in the way of loans and discounts, or by forced sales of securities. It is quite clear, however, by Mr. Palmer's evidence in 1840, that the Bank did neither, — *was perfectly passive.* And yet in 1844, Mr. Loyd recurs to the same illustration. And what is perhaps still more extraordinary, Sir Charles Wood, in his speech of the 20th May, 1844, after quoting Mr. Loyd's evidence as to the drain of 1832 having been "*met*" by a contraction of the circulation, adds, "I really do not see how proof in a matter of this kind can be pressed further." And this, after having heard, and of course having occasion, as Chairman of the Committee on Banks of Issue in 1840, to weigh, Mr. Palmer's evidence!

The inconsistency of the impression intended to be conveyed by Mr. Loyd's statement with the facts of the case is placed in a striking point of view by Mr. Fullarton:—

"I do not find in the publication of a second edition of Mr. Loyd's 'Thoughts on the Separation of the Bank of England into two departments' any addition of importance to his former arguments. I am glad, however, to take the opportunity of adverting to one of Mr. Loyd's statements, which, from the manifest contradiction between its premises and its conclusions, I had always looked upon as carrying with it its own refutation, but which, from the favourable manner in which it has been noticed within these few days by an eminent and influential journal, would seem to be, neverthelees, calculated to produce some impression on the public mind. Mr. Loyd has thought fit, both in his pamphlet and in his evidence before the Committee of 1840, to contrast the history of the drain of bullion which the Bank sustained between May 1830 and May 1832, and the drains of 1825, 1833–7, and 1838–9, and to ascribe the facility with which the first-mentioned drain was brought to a termination, without any commercial distress or discredit, to its having been '*met*' on that occasion by a contraction of the Bank's circulation; whereas, in the other three cases, he says 'the paper circulation was rather increased than diminished.' Now it cannot, I presume, be unknown to Mr Loyd, that the drains of 1825, 1833–7, and 1838-9, were drains originating in commercial causes, whereas the demand for gold in 1830–2 was a demand from panic. It commenced in 1830 from abroad, in consequence of the political convulsions and worse forebodings on the Continent inducing merchants to countermand their orders and give money a preference to goods; and this was followed by an internal demand, originating in a like political discredit in this country, the result of the agitation produced by the Reform Bill, and which did not reach its acme till the spring of 1832, after the foreign exchange had not only been completely restored, but gold was flowing back again in large quantities. This drain was unpreceded and unaccompanied by any commercial excitement, by any speculation or rise of prices. On the contrary, the unexampled dulness of trade and stagnation of industry were the universal theme of complaint among merchants. The gold was withdrawn from the Bank, not to be launched out in foreign purchases, but to be locked up or buried in the earth. If no over-trading, then, nor undue augmentation of prices existed, how was it to be expected that there should have been any general embarrassment or distress from their recoil? If, by saying that this drain was '*met* by a contraction of the currency,' it be meant to imply that the

Bank, on the occasion in question, adopted any positive measure of resistance at variance with its practice in the other three cases on which Mr. Loyd animadverts, the assertion is wholly unwarranted. The Bank was entirely passive on the occasion; and, if it did not re-issue all the notes which were sent in for gold, it was simply because the public did not call for them, because the very same circumstances, which at this time had been spreading distrust of all existing institutions, and inclined men to convert their property into specie, had also been paralysing trade, and restricting the frequency of transactions requiring the aid of specie. The Bank continued, throughout the whole crisis, to discount as freely as usual all the good bills which were brought to it for discount; and we have the express assurance of the Governor, Mr. Horsley Palmer, that, 'for eighteen months or two years previous to 1832, the Court had taken no measures for contracting the circulation.' [See Report of the Committee of 1832 on the Bank of England, p. 22.] Whatever difference of opinion there may exist as to the proper method of treating a drain of specie, so long as there may be the least colour for attributing it to a depreciation of the circulating medium from excessive issue, I am not aware that any one has ever presumed to contend, that a run for gold, caused by internal panic or distrust, would be likely to be stopped by the Bank suspending its discounts. And, while I quite agree with Mr. Loyd, that the circumstances connected with the crisis of 1832 furnish a most instructive lesson as to the right method of treating drains of the precious metals, I am bound to say, that the lesson which I draw from them is nearly the reverse of that inculcated by Mr. Loyd. I value it not, certainly, for any testimony which it affords of the advantage of meeting every drain of gold indiscriminately with a contraction of the Bank's issues, for it presents us with nothing to which I can consider the term 'contraction' applicable at all; but I value it as demonstrating, with how little shock to the even tenor of affairs a great crisis of this kind may, under certain circumstances, be surmounted, by the simple abstinence of the Bank from any officious or violent interference, or any attempt to withdraw its issues from the control of the public demand, and for the striking contrast which it suggests to our apprehensions, of the very different results which might have followed, had the Bank on this occasion administered its issues according to the principles advocated by Mr. Loyd." — (*Regulation of Currencies*, p. 184–186.)

But whatever may be said or thought of the strange use made by Mr. Loyd, in the service of the currency theory, of the simple fact that in the drain of 1830–32, a larger proportion than usual

of the demand fell (in consequence of the peculiar state of public feeling connected with the Reform agitation) * upon the note circulation, it is quite clear that Sir Robert Peel could have had no accurate knowledge of the state of commerce and credit in 1832, when he characterised it, with reiteration, as a period of monetary derangement.

As to 1836–7, it may be allowed to be designated as a period of monetary derangement; although it was but partially so. Sir Robert Peel seems to have known very little about it, and to have satis-

* Of the extent to which this feeling operated in a drain upon the Bank for gold, in exchange for notes, the following account is given among many agreeably told anecdotes by Mr. Francis, in his History of the Bank of England: —

"In 1832 occurred the last run upon the bullion of the Bank, occasioned by political causes. On every wall throughout the metropolis the significant words, 'Stop the Duke!' 'Go for gold!' were boldly placarded. For a week the corporation sustained a run upon its specie, which was reduced to 4,919,000*l.* In one day 307,000*l.* were paid. It soon became very questionable whether the run for gold would not drain every banker in the kingdom. That the demand was political was proved from the trifling nature of the applications from the country bankers. 'I never saw the hall of the Bank,' said Mr. Richards, in his evidence in 1832, 'except in 1825, so crowded with applicants tendering their notes. They had not in general the appearance of being people from the country.' One person, who had money with Jones, Loyd, and Co. to the amount of 20,000*l.*, drew it out from them in the form of notes, and then went to the Bank and demanded gold. The London bankers found that the claims extended to their establishments. Several refused to pay in gold; but on giving notes, said, 'You may go and get gold for them at the Bank.' The stockholders took alarm, sold their government securities, and demanded specie in return. The funds were low; and when the panic had subsided, and confidence reappeared, the same persons brought back their sovereigns, and repurchased their stock at a heavy loss. *It is impossible to say how far the panic would have spread had the one pound notes been in existence.* But it is far from improbable, that out of the extensive organisation that then existed, some deeply-rooted scheme for a simultaneous demand might have arisen, and produced consequences as unforeseen as terrible. As it was, 1,500,000*l.* were paid in a few days, but no further evil occurred to the Bank of England."

fied himself with the easy process of the currency theory, that of looking only at the amount of the note circulation; and if this did not vary with the variations in the amount of bullion in the Bank of England, and still more, if it happened to vary in an opposite direction, setting it down as a sufficient cause of the crisis. I have in a former part of this work (Vol. II. p. 274.) entered into a full explanation of the circumstances relating to the monetary derangement of that period; I therefore refer the reader to it; and I have no doubt that he will there find abundant proof that the amount of Bank notes in circulation had nothing to do with it. Both the Bank of England and the country banks were injudicious and indiscreet in their advances in 1835, and the early part of 1836; but of the excess of these advances the amount of Bank notes outstanding formed no indication.

But although I am willing to allow that 1836–7 may be considered as a period of monetary derangement, I cannot consider it as coming within the category of memorable commercial crises. It was confined in a great measure to two branches of trade, the American and East Indian, including China. The trade with the Baltic, and with the continent of Europe generally, was perfectly undisturbed, both in prices and in credit. The Bank raised its rate of discount to 5 per cent., and laid some restriction upon the bills of the American houses, who were notoriously overtrading. But for purposes of trade, generally, there was no want of accommodation; and the utmost rate that was heard of was 6 and 7 per cent. for fair commercial bills of moderate length. And, with the exception above mentioned, there was no depression in the prices of produce.

Even Mr. Norman seems to have attached little importance to the derangement of 1836.

"The crisis," he says, "of 1836, was more partial than any that had preceded it; indeed it presented but little more derangement than might be expected to occur every five or six years, excepting what the opening of the trade with China, and our relations with America, will fully explain."—(*Remarks upon some prevalent Errors with respect to Currency and Banking:* 1838, p. 74.)

Granting, however, to the utmost extent claimed, that 1836–7 was a period of crisis, what are we to say to 1839, which is brought forward as a period of monetary derangement?* Why, surely, that there was never a greater misnomer. If Sir Robert Peel would give a definition of what he considers a crisis or monetary derangement, and the definition should be such as to bring fairly within its compass such a period as 1839, then I should say that we ought to amend our commercial vocabulary; and invent some other name to designate such a state of things as occurred in 1825 and in 1847. By common acceptation, monetary derangement supposes a fall of prices, commercial failures, and discredit. Now none of these happened in the year 1839. Markets for produce were remarkably firm; there were no forced sales for money to meet engagements; there was not a single failure of a commercial or banking firm of any eminence; nor was there any difficulty of getting accommodation by the Bank at 5 and eventually 6 per cent. for bills at ninety-five days' date, and in the discount market at a little higher rate for longer dated bills. The whole of the phenomena of that year are resolvable into a moderately increased rate of interest during a very short interval, and an uneasiness in the minds of the public at the unsafe position in which the Bank had, by want of foresight, suffered itself to be placed.

From this array, then, of four crises, we must

* Mr. Loyd employs the term *convulsion*, as applied to 1837 and 1839!

wholly strike out two. The third is hardly worth mentioning. There remains but one—the solitary case of 1825, till we come to that of 1847, which I shall have occasion to notice more distinctly hereafter. In the mean while I would observe, that there are only two other cases in the last sixty years that come within the same category as 1825 and 1847. They occurred in the years 1792-3 and 1810-11. In each of those instances the degree and extent of commercial distress and discredit are matter of historical record.* They are not susceptible of exaggeration. In two of these cases the crisis was so urgent as to induce the interference of Government to mitigate it by the issue of exchequer bills. In 1825-6, the Government, though it declined giving the aid of exchequer bills, prevailed on the Bank of England, against its rules and inclination, to make advances on goods in warehouses.

It is to be observed of these great occasional derangements of credit, which all resolve themselves into a previous abuse of credit, that no two of the instances are exactly alike. In the general features of overtrading, or overbanking, or both, they cannot but agree, because one or other, or both, involving transactions on credit, invariably precede the revulsion, which consists in a contraction or failure of credit. The circumstances which give rise to the disposition to overtrading and overbanking may vary infinitely; but, generally speaking, supposing the existence of motives to speculation and hazardous enterprize, there is one condition which seems most highly favourable, if not essential, to the development of them into extensive operation, and that is a low rate of interest of some continuance.

* Of the crisis of 1792-3 a description will be found in the Appendix. Of that of 1810-11, I have given a full account in Vol. I. pp. 303—9.

Thus in 1792, although the Bank rate of discount had not been reduced below 5 per cent., the market rate had fallen to, or below, 3 per cent. per annum; and the 3 per cent. consols had reached 97¼ in the March of that year. This comparatively low rate of interest had been, in some degree, both a cause and an effect of the great extension of the country bank system which about that time took place. And in their competition for business, there could be no doubt, after the event, that their advances had been too large, and had been made on insufficient or inconvertible securities. Coincidently with this growth of banks and banking accommodation, there were several circumstances, both commercial and political, calculated to excite a spirit of mercantile enterprize. And it is observed, in contemporary accounts, that the low rate of interest and the high price of the public funds in this country had forced capital abroad in the shape of extended credits to foreign merchants, and of occasional investments in foreign government funds.

But the excitement, and the tendency to overbanking and overtrading, at that time, were not confined to this country. There was a vast chain of bill circulation extending over several of the principal trading towns of the continent of Europe, including London in the circle. One of the earliest instances of the giving way of the links in that chain of circulation, was the failure of the firm of Burton, Forbes, and Gregory, of London, who gave open credits to foreign houses. Several houses at Amsterdam formed part in that extensive circulation, and failed in the autumn of 1792, or early in the following year. In this country the number of failures, banking and mercantile, at that time, greatly surpassed those of any former period; and taking into consideration the relative magnitude of the trade, and the pecuniary transactions of the

country, at the two periods, it would seem that the monetary derangement or crisis (either of which terms applies to the case of 1792-3) was little, if at all, inferior in intensity to that of 1825. The circumstances connected with the pressure of 1792-3 are so important and instructive that I have thought it desirable to insert in the Appendix extracts from the Report of the Select Committee, (House of Commons) on Commercial Credit in the session of 1793, and also from Macpherson's Annals of Commerce, descriptive of them.

The commercial distress and banking discredit of 1810-11 nearly equalled, in point of intensity, those of 1792 and 1825; and the losses caused by the fall of prices in 1810 were, I am inclined to think, greater than they had been at any former period. In the still more violent fluctuation of prices which took place between 1812 and the close of 1815, it is possible that the losses were greater; but there was not then any such sudden and extensive revulsion of credit, and commercial distress, as occurred in 1810-11. The spirit of enterprize and speculation which prevailed in 1808, and which led to this revulsion, had not been preceded, as in the other cases to which I have compared it, by a continuous low rate of interest. But it was a period in which banking accommodation was easy at about 5 per cent. The political events of the time, and the commercial contingencies depending upon them, were such as led irresistibly to the most sanguine speculations. These, and the reverses which attended them, I have elsewhere described. My reference to this period is chiefly for the purpose of observing that the revulsion by which it was marked had not been preceded by a low rate of interest, as was the case in 1792 and 1825; yet it is to be borne in mind, as I have before stated, that the speculations ending in the revulsion of 1810 had mostly their origin

in 1808, when the circulation was relatively low, and the exchanges and the price of gold very near their par.

A careful reference to the great monetary derangements, or commercial crises, of 1792–3 and 1810–11, will show how imperfect was the knowledge, or how great the disposition to exaggerate, which could lead Sir Robert Peel to enumerate among his four instances of crises, such periods as those of 1832, 1836–7, and 1839, when in truth there was only one of the four, namely, 1825, which could come fairly within that category, unless a name altogether new be given to designate such a state of things as occurred in 1825 and 1847.

Of the crisis or monetary derangement of 1825, the circumstances which led to it, and its termination, I have given an account at some length in a former part of this work (Vol. II. pp. 141—189.); and I shall have occasion, when noticing the working of the act of 1844, to institute a comparison between the crisis of 1847 and that of 1825. In the mean time, before closing my review of Sir Robert Peel's exposition of the grounds for the measure of 1844, I have to notice the further proofs which he adduced of the necessity for restricting the circulation of banks of issue, by reference to the failures of country banks.

Section 14. — *On Sir Robert Peel's Statement relative to Bankrupt Banks.*

Sir Robert Peel having, as he seems to have thought, established his position of the *four* monetary derangements or crises within twenty years, and having made a passing remark on the number

of failures of country banks in the years 1814, 1815, and 1816, proceeded to observe:—

"With regard to the last few years, a return has recently been laid before the House. I hold in my hand a return of the number of private banks which became bankrupt in the years 1839, 1840, 1841, 1842, 1843, with the amount of dividends paid, so far as they can be ascertained." He then exhibited a tabular statement of eighty-two banks which had become bankrupt in those years; and he added, "in ten of the cases the amount of the assets; in others, the causes of failure were stated." Of these he gave some descriptive particulars; but in one instance, only, does his statement notice the amount of the note circulation; and in that single case it was 5,590*l.* Upon this very objectionable statement, Mr. C. Buller justly observed,—

"As to the appalling picture which had been presented by the Right Honourable Baronet of eighty-one banks insolvent in five years, the return given of them showed only twenty-nine had been banks of issue; but no information had been given of the amount of notes issued; the rest of the number must either have been made up of London bankers (whose failure could not have resulted from issues, because they issued not at all), or, of those who, having failed in speculation, had been published as bankers, simply because they had held shares in joint stock banks. Such, at least, was the prevailing impression."

It was afterwards admitted that *six*, out of the number in this statement, were only persons who had held shares in joint stock banks. And of the twenty-nine that were issuing banks, only a single instance is given, and that as having notes in circulation, amounting to less than 5,600*l.* The prime minister would surely have had no difficulty in obtaining returns of the circulation of the remaining twenty-eight. If the aggregate, or separate, amount had been exhibited, I feel very confident that it would not have borne out the impression intended to

be conveyed. In this statement, as in the whole discussion, Sir Robert Peel seemed studious to blend the question of solvency of banks, with that of their possession, and alleged abuse, of the power of issue; two questions involving considerations so perfectly distinct, with reference to any legislative regulation applicable to them, that it is surprising how any person of common understanding could so confound them. He must either have had very confused notions on the subject, or have desired that the distinction should not be examined by those whom he was addressing.

I do not for a moment question the purity of the motives by which Sir Robert Peel was actuated, or believe that he had any other objects than the public interest and his own fame, in bringing forward this measure. But why, then, adopt a course of argument which so openly exposes him to the charge of confusion of ideas, or of disingenuousness? To the former charge he can hardly be thought liable, considering how capable he has, on various occasions, shown himself of lucid and luminous exposition, when he has to deal with a good case, of which he has made himself master. And it is still more difficult to entertain the latter charge, admitting, as I most fully do, the purity of his motives. The only way in which I can account for the difficulty is this: he appears to have suffered himself to be so captivated by the subtle reasoning of Colonel Torrens, as well as by the specious arguments adduced with so much eloquence by Mr. Loyd, and with so much earnestness by Mr. Norman, in favour of the currency principle, as to have become a warm proselyte of the school, and to have determined, with the sectarian zeal of a neophyte, to carry its doctrines into practice. But he does not seem to have made himself sufficiently master of these doctrines to expound them clearly. Nor is it, indeed, to be wondered at, that, amidst his pressing avocations,

he had not time or attention to devote to the study requisite for attaining a comprehensive and accurate knowledge of the subject he was dealing with.

Accordingly, nothing can be more unsatisfactory, (as was well observed by the *Times*,) than his exposition of the principles on which he proposed to restrict the amount of the note circulation; nor more evident than that he must have had some misgivings as to the weak points in his argument. He seems to have endeavoured to make up for the defect by declaiming upon the evils of the banking system, as it had theretofore existed; and here, by way of showing the necessity of restraining the *competition of banks of issue*, he adds to the failures of *twenty-nine issuing bankers* a statement of *fifty-three non-issuing bankers*, six of these being admitted to be only shareholders in joint stock banks.*

* A writer in the *Bankers' Magazine* for March, 1847, has been at the pains of examining the files of the *Gazette* for the years included by Sir Robert Peel in his statement to the House, viz., 1839-1843, both inclusive. The result of this scrutiny differs most materially from the figures produced by Sir Robert Peel; and it is proper to add that the writer quotes at length the name, date, and description, of every one of the fiats, upon an enumeration of which his general conclusion is founded. The following is the form in which that conclusion is expressed:—

Private banks of *issue*—bankrupt, 1839-1843 -		27
Ditto *non-issue*, ditto -		8
Total of *bonâ fide*, "Bankers" - -		35
Duplicates of private bank fiats - - -	2	
Fiats issued against persons *merely* shareholders in joint stock banks - - - - - -	34	36
Total - - - - - -		71

The circumstance here stated, that *one half* of the fiats were against persons who habitually had no connexion whatever with the profession of banking, very much diminishes, if it does not wholly take away the force of Sir Robert Peel's statement.

Lord Stanley, a few years ago, in a debate on a strongly contested railway bill (the Trent Valley, if I recollect rightly), observed, in answer to Sir Robert Peel, to whom, although then united with him in party, he was on that occasion opposed, that *no one knew so well as the Right Honourable Baronet how to dress up a case for that House.** Now a case more palpably dressed up for that House cannot well be imagined. It was so far skilfully contrived, by blending convertibility with solvency, that however defective in argument, it was admirably adapted to the assembly he was addressing. Never was adroitness in parliamentary tactics more conspicuous, nor was there ever an appeal more successful than that which he made to the prejudices prevailing, in parliament and out of it, against *excessive issues*, and the consequent depreciation of Bank notes strictly convertible into coin. Accordingly, nothing could be more triumphant than the manner in which the measure, founded upon such reasoning, and such illustration as we have seen, was passed in parliament, and hailed by the public.

Mr. Hawes moved, in opposition to the second reading, "That no sufficient evidence has been laid before this House to justify the proposed interference with banks of issue in the management of their circulation."†

* I am not sure of the exact words, because I cannot lay my hand on the volume of Hansard in which the debate is reported, but I have every reason to believe that the *point* of the remark is here correctly stated.

† The speech by which Mr. Hawes prefaced his motion showed accurate and extensive knowledge of the subject; and it was assuredly not adequately answered. When I say this, it may be objected to me that the opinions then expressed by Mr. Hawes agree in the main with mine, and that I, therefore, judge partially. I should be quite willing, however, to refer on this point to the judgment of any one who takes a sufficient interest in the subject, and whose bundle of opinions, consisting of the tenets of

This motion, worded, as I think, most correctly, was negatived by 185 to 30; and of this small minority there were only four members,—Mr. Hawes, the mover, Mr. Hastie, the seconder, Mr. C. Buller and Mr. Gisborne, who were adherents to the principle of a metallic standard, and who, consistently with that adhesion, declared themselves opposed to the bill in all that related to the amount of the circulation, that is, to the whole *principle* of the bill; the rest of it being mere matter of regulation, not affecting the principle. Nearly all of the minority, excepting the four above mentioned,

either the currency principle or the Birmingham School, is not already made up, to say, after being at the trouble, as I have recently been, of looking over the speeches in that debate, whether anything like an answer was given to Mr. Hawes's objections to the bill. Mr. Goulburn, as Chancellor of the Exchequer, was foremost in reply ; and I have given specimens of the knowledge he displayed on two of the points he made; the rest of his speech being well represented by those samples. Sir Robert Peel seemed to think it quite sufficient to taunt Mr. Hawes with the heresy of denying the depreciation of bank notes during the restriction. Mr. Hawes, however, in his acceptation of the term depreciation, has the sanction of authorities so high as Mr. Blake* and the late Mr. James D. Hume. These have due regard to the prices of commodities; but they also allow for the peculiar circumstances of the time; and they give due weight to the fact that the fluctuations in the amount of the circulation and the concurrent variations of prices in no instance afforded ground for a fair inference that the latter were the effects of the former. In that point of view, they have a specious ground of argument for asserting that there was no depreciation, in the ordinary sense of the term; and I perfectly understand them. At the same time I have always used, and still adhere to the use of, the term depreciation, to signify the difference at that period between paper and gold. If the promise to pay is not performed according to the terms of it, I hold it to be depreciated in the exact degree in which it falls short of the value of the specific thing promised.

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* Observations on the Effects produced by the Expenditure of Government during the Restriction of Cash Payments, by Wm. Blake, Esq. F.R.S. 1823.

whose objections, however forcibly urged, seemed to have been utterly disregarded, were considered to be either adverse, or of duobtful adhesion, to the act of 1819. Mr. Hume objected to some of the provisions of the bill, but voted for the second reading.

In the House of Lords the bill passed without a division, and almost without the form even of a debate. Lord Ashburton was, if I recollect rightly, the only peer who objected to the principle of the bill. So that it may be said to have been carried, as nearly as might be, unanimously, by those who approved of the principle of convertibility. By the public generally, by the press, and even by merchants and bankers, with the exception of some hardly audible expression of misgiving, the act of 1844 was hailed as establishing the currency on a sound and solid footing; which would not only preserve the convertibility of bank notes beyond all possibility of danger, but would prevent all those derangements and revulsions which were ascribed to the mismanagement of the *circulation* by banks of issue: the charge against the management being that the amount of their outstanding notes did not vary as it ought, and as it thenceforth would be made to do, with the variations in the amount of bullion in the Bank. So much for the state of public information on the question at that time!

SECTION 15. — *On the Anticipations respecting the Success of the Act of* 1844, *as expressed by its Advocates and Opponents.*

If I have succeeded in my endeavours to show that the theory on which the Act of 1844 has been made to rest, is incorrect, and that the statements brought forward to prove the tendency to *excessive issues* by the country banks, do not bear out the conclusion sought to be established, the natural presumption is, that a measure founded on such mistaken views could not answer the expectations held out by the framers of it. And such is the fact.

The advantages which, by the framers of the Act, and by the propounders of the theory on which that Act was founded, were held out as being likely to be the result of the change thus introduced into the banking system of this country may be collected from the following extracts.

The subjoined passages are from the pamphlet published by Mr. Loyd, immediately after the passing of the Bill in 1844.

"The consequence of this system (the system previous to 1844) has been an abrupt and violent action upon credit and prices at an advanced period of the drain, and the ultimate evil, exhaustion of the bullion, obviated, not without great difficulty, and at the expense of severe pressure upon the public. The bill now under consideration proposes to substitute a system of early, steady, and continuous contraction, in the place of that which has been late in its commencement, sudden and violent in its operation, and irregularly carried out. By this means it seems almost a matter of demonstration that the occurrence of many circumstances by which the intensity and extent of former drains have been increased will be prevented, and that the correction of those causes of drain which cannot be altogether obviated, will be brought into operation in an earlier stage of the drain, and will, therefore, be effected with less contraction of the *circulation*, and, consequently, with less inconvenience to the public. (Thoughts, &c., 1844, p. 8.)

"It is now proposed to adopt a different course. The difficulty is henceforth to be met at the very moment of its commencement, and the corrective measures, founded upon intelligible and well ascertained principles, are to be applied, without interruption, until the evil has been subdued. Contraction of *Circulation* is to be *made precisely coincident, as regards both time and amount, with diminution of the bullion;* and thus it is conceived that the danger of total exhaustion, which could not befal a metallic circulation, will be rendered equally impossible with respect to a mixed circulation of gold and paper. The result remains to be ascertained; but all reasoning confirms the soundness of the grounds upon which this experiment is founded, and justifies a sanguine expectation that by a close and steady adherence to principle, the safety of our monetary system will be more effectually secured. Whatever may be the inconvenience to the public involved in the measures necessary for this purpose, it would be unwise in the extreme not to submit to it. There is fair ground, however, to anticipate that many adventitious difficulties, which have arisen out of the working of the present system, will be obviated, and that the essential object of the bill will be accomplished without subjecting the public to any increase of the inconveniences which they have hitherto experienced during a drain of bullion." — (*Ibid.* p. 12.)

Colonel Torrens ventured to speak in terms still more confident, and specifically prophetic. A few examples will suffice.

"Under the proposed system for the regulation of the currency, an adverse exchange, originating in the currency itself, will be a rare occurrence, and any considerable or permanent deviation from the par-of-exchange equilibrium an impossible event. *Practically considered, fluctuations in the rate of interest and in the state of commercial credit, so far as they can result from alterations in the value of the currency, may, under the operation of the proposed system, be taken at* nihil." — (An Inquiry, &c., 1844, p. 97.)

"I believe that it will fully accomplish this object (*i. e.*, the perfect assimilation of our currency to the metallic model), and that it will effectually prevent the recurrence of those cycles of commercial excitement and depression of which our ill-regulated currency has been the primary and exciting cause; and so believing, I continue to retain, after an attentive and patient consideration of all the objections urged by the able and scientific Reviewer, the opinion which I formerly expressed, that the adoption of Sir Robert Peel's plan for the renewal of the charter of the Bank of England will be the most important improvement in our monetary system which has been effected

since the passing of the act of 1819 for the resumption of Cash payments."—(*Ibid.* p. 100.)

The following question has been asked*: — "If under the proposed plan, 14,000,000*l.* had been issued on securities, and if 8,000,000*l.* was the amount in which notes had been issued on gold, making the present circulation of the Bank 22,000,000*l.*, and if a time should again occur when so large a sum as 7,000,000 should be taken from the Bank in the short space of nine months, what would be the effect of such a violent collapse?" The proper answer to this question is, that when the Government plan shall have been carried into effect, the abstraction of 7,000,000*l.* of treasure from the coffers of the Bank in a period of nine months will be morally impossible.† The violent fluctuation which occurred between December, 1838, and September, 1839, was the result of the system which the querist would desire to uphold. Had the Bank of England in 1838 and 1839 been limited to the issue of 14,000,000*l.* upon securities; had there been functional separation; had the department of banking been denied all aid from the department of issue; and had a gradual contraction of the circulation consequently commenced with the first efflux of bullion, it would have been utterly impossible that the drain should have extended to 7,000,000*l.*; utterly impossible that the pressure upon the money market, consequent on the suspension of confidence and the stagnation of trade, should have been so severe and so protracted as they unfortunately became. The proofs of these positions I have detailed in the preceding pages, and need not here repeat. — (*Ibid.* pp. 99. & 103.)

Sir Robert Peel, towards the close of his speech of the 20th of May, 1844, observed: —

"Some apprehend that the proposed restriction upon issue will diminish the power of the Bank to act with energy at a period of monetary crisis, and commercial alarm and derangement. But the object of the measure is to prevent (so far as legislation can prevent) the recurrence of those evils from which we suffered in 1825, 1836, and 1839. It is better to

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* By Mr. Hastie. Speech of 13th of June, 1844.

† The following figures, from the actual returns of the Bank, under the Act, afford a striking illustration of the correctness of this "answer": —

	Bullion.	Circulation.
12th Sept. 1846 . . .	£16,350,000 . . .	£20,920,000
24th April, 1847 . . .	9,210,000 . . .	20,690,000
Decrease . . .	7,140,000 . . .	230,000

prevent the paroxysm than to excite it, and trust to desperate remedies for the means of recovery."

Sir William Clay, in remarking, in 1844, upon my pamphlet of that year, observed, with reference to the proposed separation of the functions of the Bank of England —

"That serious difficulties or dangers would attend the working of such a plan, when once carried into effect, *I see no reason to apprehend.* At least, if there be, they must be something very different from those stated by Mr. Tooke; for any thing more thoroughly gratuitous than the difficulties he has stated — any stronger manifestation of a disposition to create the giants, he afterwards means to slay, I must be permitted to say I never witnessed."

He then cites the passage of my pamphlet, wherein, commenting on a hypothetical case, I concluded with the remark that in the event of a drain, it was a possible event that the banking department might be obliged to stop payment while the issuing department had 6,000,000*l.* of bullion, "unless "Government should step in to prevent so ridicu-"lous, however lamentable a catastrophe," upon which Sir William Clay observes — "Ridiculous, indeed, but one the occurrence of which I cannot see the slightest reason for anticipating." And further on, after describing the phenomena which under both systems would attend an adverse balance of trade, he observes —

"Under both systems these phenomena will be exhibited; but under the system of which I advocate the adoption, it appears to me certain that they will be less in degree, gentler in their transition, more gradual in their succession. The necessary contraction would begin at the right time; it would never be delayed too long; it would be precisely to the extent required, because it would not have been preceded by a previous factitious expansion."

Let us now see, on the other hand, what were the opinions entertained and expressed by the op-

ponents of the measure, and of the theory on which it was founded. Mine happened to be the first in the order of time, the pamphlet in which the opinions are stated having been published in March, 1844.

"Without attaching such exaggerated importance as Mr. Bosanquet and Mr. Gilbart, and some others who oppose the currency principle do, to the effects of great variations in the rate of interest, I am inclined to think that, excepting the convertibility of the paper and the solvency of banks, which are and ought to be within the province of the legislature most carefully to preserve, the main difference between one system of banking and another is the greater or less liability to abrupt changes in the rate of interest, as compared with the other. And a careful consideration of the various plans which have been submitted to the public for carrying out the currency principle, has led to a confirmation of the opinion which I have before expressed, that under a complete separation of the functions of issue and banking, the transitions would be more abrupt and violent than under the existing system; unless, and upon this, in my opinion, the question hinges, the deposit or banking department were bound to hold a much larger reserve than seems to be contemplated by any of the plans which I have seen.

"The difference between the two systems cannot be placed in a more striking point of view than in the following passages of a printed letter which Colonel Torrens addressed to me on the occasion of the opinions which I had expressed on the subject in a former work.

"'The difference,' Colonel Torrens says, 'between us is this, you contend that the proposed separation of the business of the Bank into two distinct departments would check over-trading in the department of issue, but would not check over-trading in the department of deposit; while I maintain, on the contrary,

that the proposed separation would check over-trading in both departments. The manner in which the separation would have this twofold effect will be seen by the following example.

'Let us assume that the Bank holds 18,000,000*l.* of securities and 9,000,000*l* of bullion, against 18,000,000*l.* of outstanding notes and 9,000,000*l.* of deposits, and let an adverse exchange require that the depositors should draw out their deposits in bullion to the amount of 3,000,000*l.*

'In this case, if the business of issue were mixed up with that of deposit, the drawing out of the 3,000,000*l.* of deposits in bullion would have no other effect than that of reducing both deposits and bullion by the amount of 3,000,000*l.*, while the amount of the circulation, and of the securities, and the power of the bank, as its securities fell due, to continue the discount business to the same extent as before, would suffer no diminution. But let the department of issue be wholly separated from that of deposit, and the result would be widely different.

'As soon as the separation was effected the deposit department holding 9,000,000*l.* of deposits with 9,000,000*l.* of securities would be obliged to sell some part of its securities, say one-third, in order to be prepared to meet the demands of its depositors. The state of the two departments would then stand thus:—

Circulating Department.

Circulation - -	18,000,000*l.*
Securities - - -	9,000,000
Bullion - - -	9,000,000

Deposit Department.

Deposits - - -	9,000,000*l.*
Securities - - -	6,000,000
Reserve in bank notes -	3,000,000

'This being the previous state of things, the demand of the depositors for 3,000,000*l.* in gold would produce the following changes. The 3,000,000*l.* of bank notes held by the deposit department as reserve, would be drawn out by the depositors and paid into the circulating department in exchange for gold while the directors of the deposit department, in order to recover a reserve equal to one-third of their deposits would be obliged to sell 2,000,000*l.* out of the 6,000,000*l.* held in securities. The results would be, that in the circulating department the bullion would be reduced from 9,000,000*l.* to 6,000,000*l.*, and the circulation from 18,000,000*l.* to 15,000,000*l.*, and that, in the deposit department, the deposits would be reduced from 9,000,000*l.* to 6,000,000*l.*, the securities from 6,000,000*l.*, to 4,000,000*l.*, and the reserve from 3,000,000*l.* to 2,000,000*l.* It is self-evident that the effect of these changes would be not only a contraction

of the circulation but a limitation to the power to over-trade in discount and loans.'

"I am willing to admit this statement as exhibiting in substance the difference between us. According to my view, as there may be variations of international payments, in other words, of a balance of trade, without any grounds for inference of alterations in the value of the currencies of the countries from which or to which such balance may be due, the presumption is, that an occasional efflux of four or five or six millions would be followed, at no distant period, by a fully equal reflux. Such was the case in 1828–9 and 1831–2, when the treasure of the Bank having been reduced by five or six millions, was replenished without the slightest operation of the Bank on the amount of its securities or its rate of interest. And such efflux and reflux might again take place under a continuance of the present system, provided that the Bank habitually held a large reserve, without any disturbance of the money market, and without any influence on the amount of bank notes in the hands of the public. Now, under a system of separation, and in the position of the two departments in the case supposed by Colonel Torrens, what would be the operation of a demand for export to the extent of three millions of gold? In all probability, this demand would almost exclusively fall upon the deposit department.

"This being the case, the directors would not have a moment to lose upon the first manifestation of such demand, without taking measures for retaining or restoring the proportion of their reserve. They must sell securities, or allow the existing ones, if short-dated, to run off, and they must inexorably shut their doors to all applications for advances or discounts. This would, as Colonel Torrens justly observes, operate as a limitation

of the power to over-trade in discount and loans. Most effectual, indeed, would it be, and, under certain circumstances of the trade, it would operate with a degree of violence on the state of credit, of which, as it appears to me, Colonel Torrens has no adequate idea. This is not to be wondered at in a writer not practically conversant with trade or banking; but that other advocates for the measure of separation, who number among them merchants and bankers, should be so unaware of it as they seem to be, does indeed surprise me. Before two or three millions of bank notes could be forcibly abstracted from the amount in circulation among the public the pressure upon the reserves of the London bankers must be extreme. They would, of course, to the utmost extent practicable, call in their loans, and resolutely refuse further accommodation.

"Although there is no modern experience of such a state of things, if any merchant, banker, or money dealer were to have the case laid distinctly before them, could any of them for a moment have a doubt as to the extremity of pressure which it would cause? I am most intimately persuaded that it would be within the mark to suppose that a rate of discount (assuming that the doors of the Bank and the ears of the Directors were inexorably closed against all applications) of 20 per cent, and upwards, would, in many cases, be submitted to, and sacrifices of goods, if any large proportion were held on credit, would be made at a still greater loss. And, after all, it might be a question, whether even this effort of the Bank on its securities would be effectual in restoring its reserve *in sufficient time* to meet the exigency. This would depend entirely upon the character of its deposits. If these were strictly payable on demand, while the circumstances determining the efflux were strong and urgent, the payment of

3,000,000*l.*, accompanied by forced sales of securities, might prove insufficient in point of time to arrest the demand; and, in this case, while the circulating department would still have 6,000,000*l.* of bullion, the deposit department would have no alternative but to stop payment. A most absurd, however disastrous state of things. But it would be too disastrous and too absurd to be allowed to take its course. If such a crisis were to happen, as most probably it would, at the time when the dividends on the public funds became due, the Government would be imperatively called upon to interfere and prevent so ridiculous, however lamentable, a catastrophe. And the only interference that could meet the emergency would be to authorise a temporary transfer of coin from the issuing to the banking department." — *An Inquiry into the Currency Question*, pp. 105—110.

Mr. Hawes, in his speech of the 13th of June, 1844, which I have already alluded to, among the other arguments which he urged against the bill, observed: —

"I cannot doubt that while the proposed restrictions are unnecessary, they will be productive of evils greater than those sought to be remedied. That in the attempt to secure ourselves against commercial pressure, we shall only aggravate their evils when they do, as they will, occur. * * * If it be supposed, that under the plan now proposed, the Bank will be enabled, as she has hitherto done, to use any such discretion in meeting a commercial pressure, it is a great error. By adopting the present plan we may obtain a fancied additional security for the maintenance of our currency on a par with the value of gold; we may make an effort to check speculation, over which we have no control; but whenever serious commercial pressure shall occur, and the proposed system is enforced, the reaction upon public credit will be violent and unmitigated. And whoever has been accustomed to watch the proceedings of the Bank of England and of the London bankers at such times, will readily anticipate that what we saw in 1825 or 1839, will be trifling in comparison with what may then take place."

And Mr. Hastie, in seconding Mr. Hawes's

motion, stated his views concisely in the passage which Colonel Torrens undertook to answer, by saying that, under the new system, an export of 7,000,000*l.* of bullion within nine months would be *impossible.*

Mr. Fullarton stated his misgivings with his usual force and felicity of expression: —

"What may be the practical working of such a scheme no man can absolutely foretell, and past experience gives us no clue to discover. It remains to be tried. For this. it must be admitted, the times are sufficiently propitious; and, while exchanges continue favourable, interest low, and the stock of bullion overflowing, all will no doubt proceed smoothly; and the unruffled aspect of monetary affairs will be cited and allowed as a proof of the beneficial operation of the government plan. But if it is to be something more than a mere fair-weather pageant, if its principle is really and literally to be carried out, at all seasons and in all circumstances, with stern and unflinching pertinacity, it may happen that, at no very distant period, (at all events, long before the ten years of the new charter shall have expired,) contingencies may present themselves, which will put the virtues of the panacea to the test, may possibly even shake a little the general confidence in their efficacy, and rouse a fresh spirit of inquiry into the nature of those periodical hurricanes which visit from time to time the great marts of industry throughout the world, and the real extent of the means (much more insignificant, it is to be feared, than seems to be commonly imagined) by which we can hope to divert or moderate them."— (*Regulation of Currencies*, 1844, p. 4.)

And again, thus: —

"It is certainly within the chapter of possibilities that the restrictive clauses of the Bank Act may, even before they are called into effective action, be reduced to a mere nullity, by some happy development of those remedial resources, which credit, judiciously administered, can always bring into play under the pressure of any strong necessity, or that their worst consequences may be avoided by a resort to the safety-valve of the bank-post-bills, or some other similar measure of evasion. In that case, there will be no undue contraction of the circulation, no refusal of the accustomed supply of capital; the great purpose of the authors of the restriction will have been simply defeated or abandoned; and the event will be at once an infinite relief to the public, and the *euthanasia* of this first attempt to legislate on the principles of the currency theory. The law, nevertheless, may still remain unrepealed; and it is even possi-

ble that there may be found persons to cry up this failure as only a new proof of its 'admirable working!' The course of events, however, which, if the spirit in which the restrictive clauses of the Bank Act are framed, is to be consistently acted up to, must be considered, I fear, as by far the most probable, would lead to a very different termination. And although that termination also might, no doubt, be liable to manifold modification from circumstances, a state of circumstances can well be imagined, in which the catastrophe would be as tremendous as it would in all likelihood be sudden and irretrievable, shaking even to its foundations the entire financial fabric of the realm." — (*Ibid.* p. 252.)

Mr. Mill, in his very able article in the *Westminster Review*, for June, 1844, on "The Currency Question," pointed out (p. 596), the dangerous character of the innovations introduced by the bill, in the following admirable passage: —

"It is a fact, attested by experience, that a drain of gold upon the Bank for exportation takes place in most cases mainly by drawing out deposits. As, in the proposed system, there is nothing to cause any change in this respect, we must suppose that this would still be the case, and that the demand for gold would be first felt by the deposit department.

"Now, under the present arrangements, in case of a run upon the deposits, the Bank has to rely, not only on the portion of reserve which it retains, like other bankers, against the deposits themselves, but also on the gold in reserve on account of its notes. Until all the gold in the possession of the Bank is exhausted, it is in no danger of stopping payment. But under the proposed system the department of deposit must rest upon its own resources. The reserve in the deposit department could derive no aid from the issue department, while it would have to bear the first brunt of the whole action intended to be exercised through it upon the latter. As it would be prohibited from meeting this demand by creating more notes, or even by having the notes which it paid out, and which then went to the issue department for gold, returned to it; either the reserve of the deposit department alone will require to be as great as is now requisite for the deposits and issues together, or it will be obliged to suspend its discounts and sell its securities much earlier and more abruptly than is necessary under the present mixed system. * * *

"While the circulating department was still abundantly supplied with gold, the deposit department might have no alternative but to stop payment."

Mr. James Wilson, also, did not omit to give very clear and forcible warnings of the perils to which the country would be exposed by the practical enforcement of the new theory. In the *Economist* of the 26th of April, 1845, after an elaborate exposure of the tendency of the act of 1844 to aggravate the evils of a drain of bullion, he concluded by saying: —

"Under this action of the new currency bill we look forward with no small alarm to the increased and aggravated consequences which a failure in the harvest, and a continuance of high prices, must exercise over the manufacturing industry of the country — not, as it is pretended, subjecting it to an earlier but less intense depression, but, as we have shown, to an earlier, it is true, but also to a more intense and protracted suffering." — (*Capital, Currency, and Banking*, p. 95.)

And again, on the 3d of May, 1845, in discussing the measures then before parliament for the regulation of Banking in Scotland and Ireland, Mr. Wilson has the following able and lucid passage on the real effect of the ministerial plan: —

"Sir Robert Peel says, take the average of the last thirteen months — fix your circulation at that; if you exceed it, increase your bullion to the same extent. Now one great fallacy of the averages of circulation is, that the average of a week, taken at the close of business, is no criterion of the actual quantity of notes which must, during the week, be issued at particular times to represent exchanges, the greatest part of which return to the issuers before the amount in circulation is taken at the end of the week; but when notes are issued, it is always uncertain what precise portion will return within a given time. A banker dealing with his notes, therefore, keeps a reserve by him for such momentary purposes, and to sustain a circulation of 100,000*l.*, as shown by the returns, he will have 150,000*l.* or 200,000*l.* of notes, more or less, and occasionally in use. But under such restrictions as proposed, he will not be able to venture the issue of such notes, being uncertain as to their return, without holding bullion to avoid the penalty in the event they do not return. The system of averages is, therefore, extremely fallacious; and we cannot understand how it is to improve the condition of the Bank of England, if for the limited stock of gold in the world it is to have the fresh competition of all the Scotch and Irish banks, in order that they may hold uniformly larger quantities than they do. But this is the least of the evil.

"Let us suppose a period of pressure. The bullion of the Bank is reduced to seven or eight millions (no very small amount compared with some periods), so that the circulation of notes is nearly equal to the securities of 14,000,000*l.* and the bullion together. What will take place in Scotland and Ireland under the new bill then? The Scotch banks have to protect 3,000,000*l.* of circulation and 30,000,000*l.* of deposits. Pressure is felt and is further expected. The Scotch banks feel that it is necessary to increase their reserves; that their deposits may be required by their customers to assist their friends to pay up railway calls, or any other purpose for which money becomes so much required at a time of pressure. They see they cannot move without increasing their amount of coin; they are the largest holders of securities and stock in London of any class of bankers; they order them to be sold in the market, draw bullion from the Bank, and increase the drain already rapidly going forward.

"It does appear the most extraordinary idea for a minister to entertain, that he can relieve the bank at a period of pressure by bringing a new, and powerful, and irresistible class of competitors into the market, in the sale of securities and the struggle for bullion. *If his object were to increase the intensity of such a crisis, he could not adopt a more certain plan.*"—(*Capital, Currency, and Banking*, p. 103-4.)

Looking at these opposite opinions, expressed before or soon after the passing of the act of 1844, I am quite content that my readers should judge for themselves, without any further comment from me, whether the advocates for the measure, or its opponents, had formed the more correct view of its probable operation.

I shall now proceed to a view of the actual working of the law, from its taking effect in September, 1844, to the close of 1847.

SECTION 16.—*On the Operation of the Act of* 1844, *from September*, 1844, *to January*, 1847.

Let us now, with the benefit of the experience of upwards of three years, since the passing of the Act of 1844, see what has been its actual operation.

I have already stated (see page 60, *antè*), that immediately on the act taking effect, the Bank of England reduced its public rate of discount from 4 per cent. for all classes of bills, to 2½ per cent. for first-class bills, and 3 per cent. for notes. And, in March, 1845, the rate was reduced to 2½ per cent. for notes also. The Directors thus entered into direct competition with the bankers and money dealers; and in so doing, they acted strictly in the spirit of the bill. Sir Robert Peel had said: —

"The *principle of competition*, though unsafe, in our opinion, when applied to issue, *ought, we think, to govern the business of banking.* After the issue of paper currency has once taken place, it is then important that the public should be enabled to *obtain the use of that* issue on as favourable terms as possible."

The obtaining of that issue, on as favourable terms as possible *meant, for it could mean nothing else, as low a rate of interest as possible;* and the Directors, in adopting the course they did, were, clearly only acting upon this exhortation of Sir Robert Peel.

This active competition by the Bank of England with the private bankers, and the money dealers, had the effect, if not of reducing, of, at least, continuing, longer than it otherwise would have been continued, the very low rate of interest which then prevailed. As a proof that the Bank, by this reduction of its rate of interest, was successful in obtaining a larger share of the discount business, it may be observed that the securities, other than public, were thenceforward larger in amount than they had been for some time previously. And there can, I imagine, be no question but that this low rate of interest, and the consequent abundance of banking accommodation, tended to facilitate and promote the railway speculations which were then (September, 1844) in progress, and which reached their culminating point in the summer of 1845. And it is no less clear that the same low rate of interest

and abundance of banking accommodation tended to promote the spirit of adventure which was then abroad for other undertakings involving the outlay of borrowed capital.

The railway speculation went at that time to such an extent as to occupy the attention of the public almost exclusively. But it is evident, from the disclosures to which the late commercial failures have led, that a good deal of what now appears to have been improvident outlay in fixed capital abroad, including foreign railways, was also then in progress, and was, no doubt, encouraged by the advances which were so liberally and so largely afforded upon distant forthcoming returns. Investments, too, in mills and mines, and various projects of internal improvement, besides railways, entailing the conversion of circulating into fixed capital, were going forward on a scale sufficiently extensive to have attracted public notice, but for the all-absorbing topic of the railway mania. This was surely not a time during which it was desirable, or (looking to probable, if not inevitable results) safe, to aid the continuance of so low a rate of interest.

But though the conduct of the Bank of England, in so greatly reducing its public rate of discount, may be considered to have prolonged the facility of banking accommodation which marked that period, no blame whatever can attach to the Directors for that reduction; or, at all events, they are not open to reproach for it from the promoters and admirers of the act of 1844, and, least of all, from Sir Robert Peel. They would not, I think, have ventured upon that step if they had continued under the responsibility which was previously considered to rest upon them in the "regulation of the Currency," as it was termed; and for which, under the former system, they were considered accountable. But from such responsibility they were

entirely, and even ostentatiously, released; the great merit of the new system having been repeatedly declared by its authors to consist in its confiding the regulation of the Currency to a self-adjusting principle, totally independent of the Bank management. In acting as they did, the Directors were, as I have before observed, fairly carrying out the spirit of the measure, as expounded by Sir Robert Peel. That they had his approval cannot be doubted, if we look at the manner in which he expressed himself in his speech of the 25th of April, 1845, (the House being in committee, on Banking in Ireland and Scotland,) with reference to the working of the act of 1844.

"I am," he said, "quite as well aware as, I believe, any one can be, of the necessity of great caution in drawing inferences as to the effect of measures of this nature on the circulation and on the public credit of the country. I draw my inferences from the closest observation of the subject, and of the working of those measures which the shortness of the interval would permit me to give them; and I must say, that so far as we can judge from experience, we have a perfect right to be satisfied with the operation of the measures which were then adopted. Admitting our experience of these measures to be short, so far as it has gone, I contend that *it has been decidedly in favour of the policy and justice of the measures sanctioned by this House in the course of the last session of Parliament.* Since these measures were adopted, we have had in this country a period of extraordinary commercial activity: we have had a great demand for the application of new capital to manufactures, and other branches of the public industry; and we have had a very unusual degree of speculation connected with the internal improvement of the country. I refer particularly to the projects for the extension of locomotion by means of railways. But I cannot find that the restrictions imposed last year have, in the slightest degree, cramped or fettered the commercial energies of the country. I cannot find that there has been the slightest ground of complaint, either that prices have been unduly affected, or that the increased demands of the country cannot be met on account of a restricted circulation."

Here was Sir Robert Peel taking credit for the favourable operation of his measure, and defending it by reference to the speculations then afloat, from

the charge to which he seemed to think it might have been liable, of cramping and fettering the commercial energies of the country by a too *restricted circulation.* He seems to have been totally unaware that the charge to which his measure might properly be considered obnoxious, was, that in the state of things as it then existed, it did not only not restrain, but greatly favoured the speculations in railways, and the commercial enterprises which were then assuming a dangerous character. Blinded by his exclusive view of the note circulation, he failed to perceive that it was the employment and direction of capital, or, in other words, the amount of banking accommodation, and not the amount of notes in circulation, that was in question, in judging of the working of his act. If, while engaged, as he stated, in closely observing the working of his new measure, he had been aware of its real operation, or if, in the course of his observation, he had conceived any doubts of the propriety or prudence of the conduct of the Directors of the Bank, in acting as they did, he would naturally, feeling the strongest interest in the proper working of the act, have given some hint or caution to the governors, with whom he, or at least the Chancellor of the Exchequer, were necessarily in occasional communication. But it does not appear that any such hint or caution was ever given to them; nor, indeed, is it likely that it should have been, seeing how little of inconvenience or eventual danger Sir Robert Peel seems to have apprehended.

While Sir Robert Peel was thus unconscious of the immediate and principal effect of that portion of the act of 1844, which had divided the Bank of England into two separate departments, he seems to have been equally unaware of the bearing of the state of things then existing upon the arguments by which the legislature had been led to impose a restriction on the amount of the

note circulation of the country banks. Those arguments went distinctly on the ground that the power of issue afforded the means, and that the competition of banks of issue supplied motives, to the bankers, to favour speculations by increased issues of notes; and that consequently, by restricting their power of adding to the note circulation, the tendency to speculation in the provinces would be repressed; and that this restriction, whatever inconvenience to bankers and speculators might attend it, would operate most beneficially to the public. Sir Robert Peel, however, in the spring of 1845, took credit, as we have seen, to the act of 1844, for *not having restrained* the speculations, or (to use his expression), cramped or fettered the commercial energies of the country, which were then evidently tending to excessive action. If the close observation which he was giving to the working of his measure had drawn his attention, concurrently, to the extent of the speculations *then* going forward in railways, besides those in mills and mines, &c., he might possibly have been led to doubt whether the *amount of the note circulation* had, or could have, any necessary or accessary influence in promoting or checking a tendency to speculation.

As a large part of the public still, apparently, participate the opinion on which the act of 1844 proceeded, that excessive issues of notes, whether by the Bank of England, or by the country banks, are essential, or materially accessary to the originating or extending of speculation, it is worth while here to show to what an enormous extent, both as to extravagance of prices, and of the nominal amount of capital involved in the transactions, speculations may be carried on, without influencing, or being influenced, by variations in the amount of the outstanding circulation. With this view, I have to solicit attention to the following

extracts from a paper drawn up by Mr. Danson, with admirable conciseness and clearness, and read by him before a meeting of the Statistical Society in January 1847.

"Between March and September 1845, joint stock speculations, for the immediate investment of capital, were set on foot, involving a larger aggregate amount than had ever before been so involved in this country. The amount to raise which, for railways alone, the sanction of Parliament was actually applied for in the following session, exceeded 340,000,000*l.* sterling. And if we include all the new schemes in which scrip, or letters of allotment, were actually selling in the market at a premium in July, August, and September, 1845, the amount cannot be estimated at less than 500,000,000*l.*

"Many of the schemes of 1845 reached a high premium within a few weeks after their issue; and all those first in the market, and having any substantial merit, were raised considerably above their true value. For instance, the Leeds and Thirsk Railway — 50*l.* shares, with only a deposit of 2*l.* 10*s.* paid — were selling, in March, at 3*l.* 10*s.*; in September, at 23*l.* 15*s.*; and in November at 4*l.* 15*s.* per share. Again, the Bolton, Wigan, and Liverpool—40*l.* shares, with 4*l.* paid—were selling in January 1845, at 4*l.* 10*s.*; in September, at 42*l.* 15*s.*; and in December, when 9*l.* had been paid, at 20*l.* per share. If we assume an average premium of 10*l.* per cent. upon the schemes then in the market, the property temporarily created by these speculations (and the repeated purchase and sale of which, on commission, furnished profitable employment to some thousands of brokers,) must have been, at least, 50,000,000*l.*

" And to this there is to be added an increased value, during the same period, of the shares in the established lines of railway. For instance —

"The Midland Stock,—amount 4,180,000*l.*, — was selling in January 1845, at 114 per cent.; and in July at 188 per cent.; showing a rise of 74 per cent., and an increase in the aggregate value of the stock of 3,098,000*l.*

" The Great Western — share capital issued, 8,160,000*l.* — 100*l.* shares selling in January 1845, at 156*l.*; and in July, at 228*l.*; and (allowing for a call at 5*l.* per share in the interim), showing a rise of 67 per cent., and an increase in the aggregate value of the shares of 5,467,000*l.*

" The Manchester and Leeds — share capital 4,660,000*l.* — 100*l.* shares selling in January 1845, at 126*l.*; and in August at 215*l.*; showing a rise of 89 per cent., and an increased value in the aggregate of 4,147,000*l.*

"The average increase in the value of 100*l.* shares in these three lines was 76*l.*; and the total increase of value in August and September was upwards of 12,000,000*l.*

"It will be seen, on reference to the tables, that during those months in which the purchases and sales of railway property were most numerous and extensive, while every body was buying and selling shares, and the current rate of interest was only $2\frac{1}{2}$ per cent., that portion of the circulating medium, which consisted of Bank of England notes, was but very slightly, if at all, increased; and that it reached its greatest amount when the prices of shares were lowest — when every body had ceased to speculate — when the number and amount of current transactions were reduced to the lowest point by descredit, and when the current rate of interest for first class bills had risen from $2\frac{1}{2}$ to $4\frac{1}{2}$ per cent."

And yet, notwithstanding the evidence afforded by the facts here stated, of the absence of any connection, whether as cause or effect, between the amount of the note circulation and the enormous extent of the speculations described in the foregoing statement, there were persons then, and there have been others more recently who, when pressed to account for these phænomena, consistently with the expectation held out by the advocates of the act of 1844, that it would operate as a salutary preventative of the recurrence of such extravagance of speculation as had been witnessed under the former system, have answered — Oh! the speculations would have gone much further if the issues of the country banks had not been restricted.* I have myself met with persons who have

* In a letter, which appeared in the *Times*, of the 15th of April last, signed "Mercator," and commonly ascribed to a high authority, in favour of the Act of 1844, is the following passage: —

"The bill of Sir R. Peel was passed in 1844, and from that time till the end of August 1846, there was an almost uninterrupted influx of bullion into this country; so that, at that time, the amount in the cellars of the Bank reached, I believe, the unprecedented sum of sixteen millions. I will not now stop to discuss the effect of Peel's Bill in preventing that undue expansion of the country circulation, which has usually occurred during a state of favourable exchanges and influx of bullion. *Without this salutary restraint, the speculative mania, with respect to railroad investments, would undoubtedly have been carried to a far more dangerous extent than it has actually*

given that answer; but when further asked why they thought so, and how they could, by the utmost force of imagination, conceive the possibility of folly, and recklessness of pecuniary engagements, going further than they then did, no attempt at explanation was made; nor indeed was it likely that a satisfactory reason could be given for so extraordinary a supposition.

It is further to be observed, with reference to the railway mania, that from the date of Sir Robert Peel's speech in April 1845, to the culminating point of that speculation, namely, in the September following, there is no reason to suppose that either he or the Chancellor of the Exchequer hinted to the Governors of the Bank any doubt of the expediency of their keeping their rate of discount so low as it then was.

I have to refer to the account given in a former chapter (pp. 66—72, *antè*) of the variations in the Bank rate of interest, from the period here noticed, till April 1847.

Until after Jan. 1847, there cannot, on the part of the currency theorists, be the shadow of a ground for impugning, in the slightest degree, the management of the Bank. The rate of discount was reduced from $3\frac{1}{2}$ per cent. to 3 per cent. in August 1846: a step which appeared to me at the time, and which I still think was injudicious; but according to the doctrine that the currency should be expanded or diminished with the increase or diminu-

reached; and to the same cause we are probably, in a great degree, indebted for the comparatively sound state of trade and commercial transactions generally at the present moment. Our present condition, in this respect, presents a most satisfactory contrast, as regards both the state of the money market and of trade, with that which has usually existed at the commencement of monetary pressure, following, in close succession, upon a prolonged period of favourable exchanges and uninterrupted growth of confidence and credit."

tion of the bullion, there was every reason for that reduction; seeing (as I presume the partisans of that theory begin now to see) that it is only through the rate of interest that the Directors could act at all. The amount of bullion in the Bank had been steadily increasing for several months, and had, on the 29th of August, reached 16,366,068*l.*, being within a trifle of the highest amount it had ever attained. According to that doctrine, therefore, there can be no question that the reduction of the rate of discount was a proper measure. Or even regarding them simply as bankers, and looking only at their reserve, it amounted to 10,000,000*l.*, being more than it had been for a considerable time. There is, therefore, no ground on which the partisans of the act of 1844 can, consistently with their doctrines, call in question the management of the Bank until January 1847. The whole of the criticism which has, with so much severity, been lavished upon the conduct of the Directors, must therefore, in justice, be considered as confined to the period following January 1847.

According to the view thus far taken (that is, from September 1844, to January 1847) of the operation of the act of 1844, it may be held to be demonstrable that it did not, and indeed could not, work, in any way that, by the most zealous of the admirers of it, could be construed as being beneficial. While, as I have shown, there is every reason, on reference to the facts of the case, to believe that it operated prejudicially.

SECTION 17.—*On the Operation of the Act of* 1844 *in the Year* 1847.

In the interval between the 21st of January, 1847, when the Bank rate of discount was raised to

4 per cent., and the 8th of April, when it was further advanced to 5 per cent., the bullion, in the two departments of the Bank, experienced a considerable reduction; the reserve in the banking department sustaining by much the greatest relative diminution.* A decrease of reserve to such an extent, and apparently still in progress, clearly indicated the expediency of a further advance in the Bank rate; and the Directors were much blamed (and not altogether without reason) for not having advanced the rate sooner.

But, in extenuation of whatever want of foresight may be charged to them, in not having raised the rate of interest between January and April, they have to plead that the Chancellor of the Exchequer (who has not been backward in blaming them, and who, from his position had superior means of ascertaining and observing the circumstances leading to the prospect of a further drain on the treasure of the Bank) made the following admission in his speech of the 14th of May last, on the Loan Discount Bill.

"*Even so late as February or March, no one anticipated the severity of pressure which has since taken place*, arising, I believe, in no inconsiderable degree from the alarm which was excited in the minds of the public by their observing, in the published account of the Bank of England the small amount of notes in reserve which appeared on the 17th of April."

The first part of the above sentence goes far to exonerate the Bank Directors from having been

* The following were the exact figures —

Dates, 1847.		Total Bullion. £		Banking Reserve. £
23d January	-	13,440,000	-	6,840,000
10th April	-	9,870,000	-	3,460,000
17th April	-	9,330,000	-	3,080,000

The *Reserve* of the 17th April shows the lowest point to which it fell at that time.

more wanting in foresight than they would have been under the guidance of a government officer, down to the end of March at least; so that, as the rate of interest was actually raised on the 8th of April, any blame at the hands of the Government can apply only to the delay of a single week.

This extent of delay would have been insignificant under the former system, with upwards of nine millions of bullion. But the urgency of the case, and the severity of the pressure arose, as the Chancellor of the Exchequer truly observed, in no inconsiderable degree (I would add *wholly*) "from the alarm which was excited in the minds of the public, by their observing *the small amount of notes in reserve which appeared on the 17th of April.*" *

There was enough, certainly, to alarm both the public and the Directors; and the cause of alarm, thus candidly admitted by the Chancellor of the Exchequer, constitutes, of itself, sufficient ground for the condemnation of the bill. The small amount of the reserve having alarmed both the Directors and the public, it became imperative, with a view of preventing an entire exhaustion of it, to have recourse to measures of extreme severity.

On the 15th of April, in announcing that 5 per cent. per annum was the minimum rate, the mention of the term of ninety-five days was omitted; and this omission was found to mean that the minimum rate applied to bills having only a very few days to run; while much higher rates were charged for bills having more than ten days or a fortnight to elapse before maturity; and, what was felt as a still more severe restriction of accom-

* If the Bank Directors had exercised more foresight than the Chancellor of the Exchequer seems to have done, and had raised their minimum rate in the early part of February to 5 per cent., and by the middle of that month to 5½ per cent., what would have been his own position with reference to the Irish loan of eight millions?

modation, a limit was applied to the *amount* of bills admitted for discount, however unexceptionable they might be, and however high the credit of the parties offering them. At the same time, merchants who had received advances at the usual quarterly period, were peremptorily called upon to repay the loans without the accommodation of renewal, which had usually been granted, if desired; the bills lodged being, of course, unexceptionable. There is no question of the expediency of the decisive steps thus taken by the Directors, under the urgency of the case; and they were so effectual, that an immediate stop was put to the efflux of bullion; and a sum of about 100,000*l.* in sovereigns, that had actually been shipped for America, was relanded.

No measure of so extreme a character had, I believe, been resorted to by the Bank since December 31. 1795, when public notice was given of a similar restriction.

The effect of this severe contraction of accommodation was to paralyse nearly all transactions on credit throughout the country. No merchant or manufacturer, however well stocked his portfolio might be with the most solid bills, could be sure of their being available to meet his immediate engagements, unless at most exorbitant rates of discount. There were instances of rates as high as 12 and 13 per cent. per annum being paid

* The following were the terms of the notice of 1795:—

"31*st December*, 1795.

"That in future, whenever bills sent in for discount shall, on any day, amount to a larger sum than it shall be resolved to discount on that day, a *pro rata* proportion of such bills in each parcel as are not otherwise objectionable, will be returned to the person sending in the same without regard to the respectability of the party sending in the bills, or the solidity of the bills themselves."

In the first volume of the present work, p. 200, will be found a description of the state of things at that period.

for unexceptionable six months' paper; and of similar bills beyond that date not being discountable at all.

To apply the term "panic" to the state of things as it existed during the last three weeks of April, and the first four days of May, would convey a very inadequate idea of the suffering of that period, seeing how indiscriminately that expression, as also the term "crisis," has been applied to comparatively slight cases of pressure. Nothing approaching to the same degree of intensity, not only of immediate pressure, but of alarm for the future, had been experienced since 1825. This alarm, which aggravated all the other causes of distress arose, as the Chancellor of the Exchequer observed, from the narrow margin of the reserve, which the published accounts of the Bank exhibited, week by week, and which led to the apprehension that any further reduction would be attended with a still more forcible restriction, if not a total denial of further accommodation. Lord Ashburton justly remarks upon this state of things,—

"Now this fright of the Bank, with ten millions in her coffers, of violating this parliamentary restraint, has driven her into proceedings which have depreciated, to a very great extent every description of property, food only for evident reasons excepted. It would not be easy to estimate this depreciation, extending over all merchandize, stocks, railroad shares, &c.; it probably would not have been overstated at from 10 to 20 per cent.: but what is worse, it has paralysed this property in the hands of the possessors, rendered it unavailable towards meeting their engagements, and thus produced, in many cases, pecuniary sacrifices, much beyond the mere depreciation of the value of property itself. It has further occasioned the suspension of the execution of orders from our customers in every quarter, thus distressing manufacturers, and impeding those very operations which would have corrected the tendency to an unfavourable balance of trade, and given safety to the circulation of the Bank."—*Financial or Commercial Crisis Considered*, pp. 18, 19.

It was the fright of the Bank, perfectly justifiable as regarded the defensive measures adopted by

the Directors under the operation of the act of 1844, which converted what, in the undivided state of the Bank treasure, need not, and, in all probability, would not have been more than a moderate and sustained pressure on the money market, into panic amounting to agony. And this is the charge against that provision of the bill which, while it appropriated an amount of bullion, much larger than was found to be required, to the issue department, left the deposits and dividends without any security at all.

There was one circumstance attending the pressure, when, at its greatest height, in April, that puzzled the supporters of the currency theory, and of the act founded upon it, more than any other; and that was, that although the pressure was so severe that it had turned the exchanges, and was bringing back the gold, it had not reduced the amount of the circulation. This perplexing fact was thus noticed by Mr. F. Baring, in the debate of the 3d of December last:—

"So far, therefore, my expectations of the Bill have not been falsified. I wish I could say the same with regard to that third anticipation which I formed. *Amongst other expectations was this, that the Bank would commence their operations earlier; and, by withdrawing their notes gradually from circulation as the gold was withdrawn from the country, the effect upon commercial people would be gradual and cautious.* Under the old system the Bank neglected the signs of the times, and did not take their precautions early enough; the consequence of which was, that when a time of difficulty and danger came, the Bank sought to save itself at the expense of whatever interest it might be which happened to be affected by its acts. My expectation was, that by compelling the Bank to take earlier precautionary steps, and by making that precaution gradual, the country would have been saved from those convulsive efforts which the Bank was accustomed to make, and crises such as these, although they might still occur, would yet be more limited in their operation. *I admit that the expectation has entirely failed.* (Hear, hear.) But still I cannot help feeling that the principle upon which that expectation was founded was correct and true; and the more so, when I look at the operations of the Bank itself. I have avoided troubling the

House with statistics; but for the purpose of making myself clear upon this point, I will trespass upon them with an extract, merely requesting the House to observe that I take the figures under the old system. I find, then, that the amount of *bullion* in the Bank, on September 12, 1846, was 16,354,000*l.*, and that on April 17, 1847, it was reduced to 9,330,000*l.*, being a *diminution* of 7,024,000*l.* Now, I take the same dates with respect to the *circulation* of notes, and I find that on September 12, 1846, the amount was 20,982,000*l.*, and on April 17, 1847, it was 21,228,000*l.*, being an increase of 246,000*l.* (Hear, hear.) *Now I do not know what might have been the expectation of my right hon. friend, or of those gentlemen on the opposite benches, who are more acquainted with this subject than I am; but for myself, I must say, that I never entertained the idea that it would have been possible, under the operation of this bill, to have shown such a set of figures as that.* (Hear.) If we could have supposed this possible, when we were in committee in 1840, collecting the evidence upon which the bill was founded—if a case had been brought before us in which, when the bullion had run off 7,000,000*l.*, the notes had increased 250,000*l.*—then I should have said not only that that was impossible, but that it was the strongest argument for the alteration of your system, and the strongest reason for a bill founded upon the principles of the right hon. baronet. I know I am told in answer to this that it is all the fault of the Bank. *I believe, if we look back, we shall find that the operation of that question of the reserve was not sufficiently considered, either by those who were favourable, or those who were opposed to the bill. I cannot find in the discussion of the period two sentences leading me to suppose that danger arising from such a cause was contemplated or referred to*, and, in my opinion, the Bank was enabled to do that which it ought not to have done—when gold was running out not to reduce their circulation by a single pound. I do not think that the system works satisfactorily in this respect, and, in fact, the point did not receive anything like a sufficient consideration. Perhaps it was impossible, before the bill was in practical operation, to see how the reserve of notes would operate, *but it certainly never entered into the contemplation of any one then considering the subject, that* 7,000,000*l. in gold should run off, and yet that the notes in the hands of the public would rather increase than diminish.*"

The admissions contained in this extract, from the speech of Mr Baring, are as important as they are candid; and they fully explain the deep anxiety which was manifested by the supporters of the measure in the early part of 1847, to explain away, by most unsparing animadversions on the

Bank management, its palpable failure as regards any control over the circulation. It is hardly conceivable that the wide difference between the actual working of the measure, and their anticipations of it, should not have struck them all as it did Mr. Baring. The almost inevitable presumption is that they were so struck; but have wanted either the courage or the candour to admit it. Before alluding further, however, to the character of these animadversions, I must be permitted to point out that Mr. Baring is in error in stating that "neither by those who were favourable, nor those who were opposed to the bill," was any expectation entertained or expressed that it would fail to regulate the amount of the outstanding circulation; and that the question of the reserve was not sufficiently considered. I would beg to refer to the work of Mr. Fullarton, and to my own pamphlet of 1844, in proof of the fact, that both these topics received a very full share of attention on the part, at least, of those who were opposed to the measure of that year. It was, in truth, the utter unconsciousness of the currency party of the vital importance of these precise points of the question which excited most astonishment among their opponents.

One of the earliest expressions of disapprobation of the conduct of the Bank was contained in a letter, under the signature of "Mercator," which occupied a very conspicuous place in the *Times* newspaper of the 15th April (1847). Lord John Russell alluded to this letter in the debate of the 3d of December, in the following terms:—

"I do not at present consider whether the Bank should have taken precautions before the month of April last; but in the month of April, a very remarkable letter having appeared in *The Times* newspaper, showing the continued drain of gold that was going on, and that it all operated on the reserve of the Bank, and in no way on the discounts or circulation, the Bank

Directors immediately began to change their course. To a great extent they limited their discounts, and the circulation was diminished from the month of April to the beginning of June by about 1,500,000*l.*"

In consequence of the allusion thus made to that letter by Lord John Russell, and the important effect on the Bank management which he attributed to it, I was induced to refer to a file of the "Times," and have made the following extract from it. This extract contains all that is material of the letter, pointing out, as it does, *the three courses that were open to* the Bank, and animadverting on the management for not having adopted that which was most suited to the occasion.

"From the beginning of January the drain of bullion assumed a more serious aspect; and, of course, as the bullion was drawn from the Bank the notes at the command of the Bank would be diminished to an equal amount. It became incumbent upon the Bank, therefore, to look seriously at its position, and to form a determinate judgment as to the principle upon which it would regulate its banking operations. *Three courses were open to it:* —

"1. It might determine to meet the drain of bullion by a diminution of the notes in the hands of the public to the same amount, and thus retain its banking reserve undiminished. But the banking reserve was at this time at a high amount, such as would safely admit of some reasonable reduction. This course, therefore, would have caused more sudden and severe pressure on the money market and the state of credit than was necessary; and the Bank was entitled so to conduct its banking operations as to throw a portion of the contraction of notes rendered imperative by the decrease of bullion upon its banking reserve.

"2. It might make the necessary contraction of notes fall partly upon that portion of the notes which were in the hands of the public and partly upon its banking reserve. This is the course which the Bank, acting in obedience to the rules of ordinary prudence in the management of banking operations, ought to have pursued. Had it done so, a pressure upon the money market and upon credit would have been produced, commencing simultaneously with the drain of bullion, acting steadily and equably, and necessarily increasing in power as the drain of bullion progressed. By this means it can hardly be doubted that the drain of bullion would have been gradually restrained and regulated, and the adverse state of the exchanges corrected, without the necessity for any sudden or violent action by which

alarm may be created or the regular course of transactions be seriously disturbed.

"3. It might determine that the necessary contraction should fall entirely upon its banking reserve; thus keeping the notes in the hands of the public undiminished during a heavy drain of bullion. This is the course which the Bank has pursued up to the present time. It has permitted an enormous reduction of its banking reserve to take place, whilst its deposits and its notes in the hands of the public — that is to say, its liabilities — have remained undiminished. This has occurred, moreover, during a heavy drain of bullion, and in a period of enormous imports, accompanied with every indication of a prolonged continuance of the adverse balance of trade. It is needless to observe that this course of procedure is in opposition to all ordinary rules of prudence in the conduct of banking operations. This mismanagement of its banking business by a concern of immense magnitude has been productive of its natural results — inconvenience and injury to the public interest. The natural tendency of money to rise in value during a drain of bullion has been checked, and from this circumstance, as also from the absence of any decrease of notes in the hands of the public, the full benefit which might have arisen from a more early and gradual correction of the drain of bullion has not been secured. This is the result of inconsiderate measures in its banking department by a concern whose resources and operations are of such disproportionate magnitude to those of any other concern as to render them formidably powerful for good or for evil in their effects upon the general state of credit and of commercial transactions. The provisions, however, of Peel's bill for securing the convertibility of the Bank note still remain in unimpaired force. The conduct of the Bank in its banking department cannot invalidate the efficiency of those provisions, although it may to some considerable extent affect the degree of inconvenience and pressure which will arise under their operation."

In stating that there were *three courses open to the Bank*, the writer must mean that the Directors had not only the *option* but the *power* to act upon any one of them, *directly and exclusively*, according as it might suit their views. Believing, therefore, according to the currency doctrine, that it was, under the circumstances, incumbent on the Bank to contract its *circulation*, he blames the Directors for having pursued the course No. 3, instead of No. 2, which alone, he contends, was adapted to the occasion.

The assumption of *these three courses* being open

to the Bank, offers an excellent opportunity of re-discussing the currency theory. As, however, I have already, in the preceding pages, gone through this task, I shall not weary my readers with a repetition of it, but leave it to the committees of the Lords and Commons already appointed, to inquire, if they think fit, into the grounds for the opinions thus confidently expressed.

After the first week of May there was a sensible abatement of the pressure. The Bank reserve was increased, and some addition, though small, was made to the stock of bullion in the two departments; and the directors became more liberal in their accommodation. The announcement too, which had been recently received, of the intention of the Russian government to invest a portion of its treasure, to the extent of thirty millions of silver rubles, (4,750,000*l.*,)* chiefly in the public funds of France and England, removed the apprehension that the large forthcoming supplies of corn from Russia might create an adverse balance of payments, and a consequent renewed export of bullion from this country. And although the prices of corn were still advancing, as they had been through the greater part of the period of pressure, the season was favourable for the growing crops, and there was therefore less alarm than there had been about the prospect of the ensuing harvest. Towards the end of May, in consequence of large importations, the prices of corn gave way considerably.

These circumstances tended to restore confidence to some extent. By the close of May, the period of great pressure and derangement of the money market, in as far as alarm was an operative cause of it, might be considered to have terminated.

* It is supposed that this sum includes about 1,500,000*l.*, invested in French rentes, in March previous (*vide antè*, p. 72).

And with reference to this period, it may be remarked, as a curious fact, that intensely severe as the pressure was, it was not attended with any commercial discredit. There were no failures; or none that attracted any public attention. This absence of failures gave an appearance of soundness to the state of credit at that time, which the events of a few months later proved to have been deceptive; and it is certainly somewhat difficult to understand how so many of the houses, which fell in September and October, stood their ground through the shock in April. As to some of them, it is not improbable that the very high rate of interest they had to pay, and the immense losses incurred by forced sales of produce, and other property, in order to meet their engagements during the period here alluded to, weakened them so much, as to render them unable to stand a second shock. I would be understood, however, merely to notice the circumstance of the absence of failures during the period in question, as a singular fact, without pretending to have the means of satisfactorily accounting for it.

Although, at the end of May all, or nearly all, the immediate causes of the monetary derangement which had characterized the period in question had ceased, the rate of interest, both at the Bank of England, and in Lombard Street, did not fall to the level from which it had risen in the two preceding months. The continued demand for capital by the railway companies, in the shape of calls and loans was, of itself, a sufficient cause for a higher rate.* There was, moreover, as connected with

* Considering the prominence which has been given to the subject of the railway expenditure, it may be worth while to reduce to a tabular form the official statement of the amount of that expenditure, given by the Chancellor of the Exchequer on introducing the bill for regulating railway companies, on the 26th November, 1847. It is necessary to say in explanation of

the railways, an uneasy feeling prevalent, arising from the enormous extent to which the pro spective outlay on them was proceeding. And, in other directions, there were no clear grounds of confidence in looking to the future. As the period of the payment of the July dividends approached, apprehensions began again to prevail with reference to the effect which that payment would have upon the Bank reserve. And when, at the end of July, it was found that a very decided reduction of it* had taken place, while the exchanges were wavering about par, there were strong indications of a tendency to renewed pressure. In order to repress the rising demand for advances, the Bank, somewhat out of its usual

the last column of the following table, that it represents the gross expenditure diminished by *one-fifth*, that being the estimated proportion of the *gross* expenditure which is absorbed by the purchase of land, and the parliamentary expenses. The remaining fourfifths may be taken to represent the *bonâ fide* outlay on labour and materials.

Years.	Capital authorised to be raised.	Capital expended.	Expenditure less $\frac{1}{5}$th, leaving as actual outlay on labour and materials.
	£	£	£
1840 - -	4,000,000	—	—
1841 - -	3,500,000	1,470,000	1,176,000
1842 - -	6,000,000	2,980,000	2,384,000
1843 - -	4,500,000	4,435,000	3,548,000
1844 - -	18,000,000	6,100,000	4,880,000
1845 1st half year	59,000,000	3,500,000	2,800,000
2d —		10,600,000	8,480,000
1846 1st —	124,000,000	9,800,000	7,840,000
2d —		26,685,000	21,348,000
1847 1st —	38,000,000	25,700,000	20,560,000
2d —		—	—
	257,000,000	91,270,000	73,016,000

* 19th June, Bank notes and coin - £6,540,000
31st July, „ „ - 4,440,000

course, gave, on Monday, the 2d of August, a semi-official intimation that, in future, the rates would be 5 per cent. on bills having one month or less to run, 5½ per cent. on two months' bills, and 6 per cent. for longer dated paper, not exceeding 95 days. On the following Thursday, the 5th of August, these measures were confirmed, and a formal notice issued that the *minimum* rate was advanced from 5 to 5½ per cent. per annum. This movement of the Bank had a considerable effect in raising the general terms of accommodation.

The next alteration of the Bank rate of interest was on the 2d of September, when the directors announced that they would make the usual quarterly advances till the 14th of October, at 5 per cent. per annum. This was followed on the 23d of September, by a notice, of some stringency, raising the *minimum* rate on two months' bills to 5½, and on three months bills to 6 per cent. This alteration produced a very decisive effect, and may be described as the virtual commencement of the pressure of October. Consols, which had stood at 86½, fell very rapidly to 85, and there was a palpable rise in the market rate of interest. On the 25th of September, the banking reserve had fallen to 4,704,000*l.*; and on the 1st of October, the directors adopted very stringent means for the protection of this fund. They intimated that 5½ per cent. would be the *minimum* rate on all bills falling due before the 15th of October; and further, that they declined *altogether* to make advances on Stock or Exchequer bills The latter clause of the intimation produced violent excitement on the Stock Exchange.

"The effect of the announcement," says the *Economist*, of Saturday, the 9th of October, "made by the Bank on Friday last, viz., that no further advances would be made on public securities, produced a severe panic on the Stock Exchange, on

Monday and Tuesday (4th and 5th Oct.). Large orders were received, both from town and country bankers, to sell consols and exchequer bills in order to convert them into money. On Tuesday the pressure became so great, that while the price of consols was 84½ for the account, due on the 14th October, that for present money was only 83½, which difference indicated a rate of interest of 50 per cent. per annum, for the nine days; while exchequer bills were currently sold at 30*s.* discount, and in some cases at 35*s.*, indicating a rate of interest of 7½ per cent. per annum, for the six months which they have yet to run. The rate of depreciation continued even greater on Wednesday morning at the opening of business, exchequer bills having been sold at 37*s.* discount, when the Bank intimated their willingness to advance on these securities to a limited amount, which immediately gave ease to the market, so that at the close of that day they left off at 23*s.* to 17*s.* discount."

During the occurrence of these events a new and very important cause of monetary derangement came into operation, namely, commercial discredit. This began with failures in the corn trade, following each other, in rapid succession, from the 6th of August to the end of that month, and exceeding, in amount, any thing of the kind that had ever been experienced before in Mark Lane. It was still, however, considered that, with the exception of this branch of trade, (the losses in which, by the enormous fall in the prices of corn, accounted for the failures,) the general commerce of the country was in a sound state. But this impression was doomed to be lamentably dispelled by the events of the two months following. On the 10th of September, the stoppage of the house of Gower, Nephews, and Co. was announced; and this was followed by the successive fall of several other firms, of great importance from the extent of their connections and the vast amount of their liabilities, during the remainder of September and part of October. These *mercantile* failures, in number, and in the amount of property involved in them, were beyond all precedent in the commercial history of this country.

There was no failure of a bank (except the

unimportant firm of Cockburns and Co., of Whitehall,) till the 13th of October, when the suspension of the Abingdon Old Bank (Knapp and Co.) was announced. This, however, was speedily followed by others. Much alarm was excited on Monday, the 18th, by the stoppage of the Royal Bank of Liverpool; a concern having a paid up capital of 800,000*l.*, and standing in the first rank among the banking institutions of the kingdom. The immediate consequence of this event was to send down the price of consols 2 per cent., or from $79\frac{7}{8}$ to $77\frac{3}{4}$, which was the lowest point to which they fell. In the course of the following five days, other important bank failures took place at Liverpool, Manchester, Newcastle, and in the West of England. At Newcastle, the banking discredit was exceedingly severe, and the most important bank of the district had a very narrow escape from a suspension of payments.

The course of commercial events, from the beginning of August to the week ending the 23d of October, thus proceeded in an uninterrupted progression of disaster, discredit, and dismay. At the close of that week, all circumstances tended to what is termed a crisis; not such a crisis as, by profanation of the term, has been applied to comparatively slight cases, but to so critical a state of things as threatened to involve a total suspension of all business and of all payments.

The reserve of the Bank of England had been reduced below two millions, being less by one million than its lowest point in April, against more than thirteen millions of liabilities.* It

* The following figures will show the amount of banking reserve and deposits on the days indicated: —

Dates.	Reserve.	Deposits.
1847.	£	£
16th Oct.	3,070,000	14,160,000
23rd Oct.	1,990,000	13,340,000
30th Oct.	1,600,000	13,600,000

was then quite upon the cards that a few days more of the prevailing alarm, which was causing a general hoarding of bank notes and coin, might exhaust it altogether; thus realizing the predictions of those who, with myself, had pointed out, as a not improbable effect of the act, *if strictly enforced*, as it was intended to be, that the ridiculous, although lamentable catastrophe, might be witnessed, of the banking department being compelled to stop payment, while there were more than six millions of bullion in the issue department. Any further reduction, it was then manifest, must drive the directors to still more desperate measures, even to a denial of all discounts and advances whatever, and further, possibly, to making forced sales of government securities.

During the progress of things to this critical state, representations and remonstrances, whether by deputations, or memorials, or petitions, were in vain urged upon the Chancellor of the Exchequer, to induce some relaxation of the obnoxious law. He was inexorable. The very important deputation of merchants from Liverpool, which waited upon ministers on Tuesday, the 19th, was dismissed without the least indication of any intention on the part of government to interfere. *So perfect a measure as the act of* 1844 *could not be in fault*, and no alteration of it, therefore, was to be thought of. It was not until Friday, the 22d, or Saturday,

Consols were at something above 79; exchequer bills at between 20*s*. and 30*s*. discount; bank stock at 178 to 180; and the difficulty of obtaining discounts in Lombard Street so great, that rates of interest of almost incredible extravagance were readily given upon first-rate paper having only a few days to run. In confirmation of this latter statement, I may mention a circumstance which fell under my own immediate observation. On Thursday, the 21st October, I happen to know that for the discount of about 10,000*l*. of City bankers' acceptances, having not more than seven days before maturity, a rate of interest and commission was paid equal to 13 per cent. per annum.

the 23d of October, that, at an interview of some of the leading City bankers with the head of the government, such a picture was drawn by them of the fearful consequences to be apprehended from further persistence in maintaining the existing restriction; and these statements were so forcibly corroborated by the alarming intelligence from Newcastle, that the desired relaxation was at length conceded.

Early on Monday, the 25th of October, a letter was addressed, by the First Lord of the Treasury and the Chancellor of the Exchequer, to the Governor and Deputy Governor of the Bank, recommending to the directors to enlarge the amount of their discounts and advances upon approved security, but suggesting that the rate of interest should not be less than 8 per cent.; and undertaking to obtain an indemnity from Parliament should this course lead to any infringement of the existing law.*

Injudiciously conceived, and ungraciously expressed, as were the terms in which this relaxation was granted by the government, it was effectual for its main purpose. The barrier which had cut off the resource of the bullion in the issue department from the banking department, having thus been removed, all that part of the pressure and distress, which had prevailed for some weeks, arising from alarm at the smallness of the Bank reserve, ceased immediately. Hoards of Bank notes and coin came forth, and although the rate of interest continued high, there was an end of the extravagant rates which had, in some instances, been charged; and merchants had an assurance, which they had not before, that what good bills they were in possession of would, although beyond Bank time, be available to meet their engagements. The immediate relief thus produced, while it fully

* See Appendix.

justifies the government in having sanctioned a contingent infringement of the law, is the crowning proof of the impolicy of the act of 1844.

Were the occasion less grave, it would be calculated to excite a smile to observe the great anxiety of ministers to justify their sanction of a contingent infringement of the law, when the real, and, as I conceive, the unanswerable charge against them, was that of having withheld it too long. The justification urged by the Chancellor of the Exchequer, in his speech in the debate of the 30th of November, affords grounds for the severest condemnation, not only of the act of 1844, but also of the delay of government in affording the only relief from its operation that could be effectual. The description given in that speech of the state of things from the 2d to the 23d of October, and of the immediate consequences of the letter of the 25th, is so graphic, and, at the same time, has so much of the stamp of authority for the facts, while it fully bears out my view of them, that I am induced here to extract the following passages from it.

"When I came to London on the 2nd of October, I found the whole city in a state of the greatest excitement and alarm. For one day, the continuation was at the rate of 60 per cent. per annum. I certainly never passed through so painful and anxious a period as the three weeks which succeeded that day. My time was occupied in seeing persons of all descriptions from the moment I came down in the morning until I went to bed at night. Parties came to me, and represented that it was perfectly impossible that the loans could be repaid to the Bank; that if the Bank relied upon such repayment for the payment of the dividends, they would be disappointed; that the Bank dared not sell the securities on which the advances had been made, and consequently, that it was impossible that the public credit could be maintained during the next week. What, however, was the fact? The next week came and the loans were repaid almost without an exception.* During the whole of this period,

* If it is meant by this remark of the Chancellor of the Exchequer that the representations were exaggerated, the simple answer is, that alarm is prone to exaggeration; and the very

the Governor and Deputy-Governor of the Bank acted with extreme prudence and discretion, in dealing with these loans, and it is satisfactory to know that, on the whole. they were very punctually paid; it is also a most remarkable thing, that at this period to which I am alluding, the Bank notes taken out of the Bank in the first four days of the payment of the dividends, exceeded only by 300,000*l.* the amount taken out in the four corresponding days of the preceding year. It is an extraordinary fact, that in such a crisis, when the need of additional *Bank notes is represented to have been so extreme, parties who might have claimed* 7,000,000*l. from the Bank during these four days, drew only* 300,000*l.* more than had been drawn in the four corresponding days in 1846.* Thus ended the week of the dividends. On the following Monday the failure of the Royal Bank of Liverpool took place, and the intelligence reached London just at the moment when a better state of feeling was beginning to exhibit itself. The failure of that bank is obviously attributable to gross mismanagement. With a paid up capital of little more than 600,000*l.*, they lent, if I remember correctly, no less than 500,000*l.* to one house. Great apprehension was entertained also respecting an eminent broker at Liverpool, who, however, succeeded in obtaining assistance from the Bank of England. On the Thursday of this week, so far as London alone was concerned, there was every appearance of a somewhat better state of things, but there was a very great change in the character of the accounts from the country. The country had always been the greatest cause of apprehension, and on the Thursday, Friday, and Saturday, the accounts were very alarming. Another bank at Liverpool, called, I think, the North and South Wales Bank, failed, and much anxiety was felt respecting others, more especially those in commercial districts; for, except in one or two instances, the banks in agricultural districts were comparatively easy. A bank at Abingdon, and another in the West of England, however, failed, the latter of which it appears will be unable to pay more than a small dividend. Other failures also occurred elsewhere. Intelligence of the failure of a large bank, the Union bank at Newcastle, was received on the Thursday, and this caused a severe run on the District Bank in that town.

"Allusion was made on a former evening to the manner in which it is supposed that this bank obtained assistance, in consequence of the interference of the government; but I can only

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alarm here described formed a very important symptom of the disease for which the remedy was then sought.

* Is it possible to give a more striking instance of the fallacy of all the reasonings of the currency theorists on the importance attached to the *amount* of the note circulation as an efficient cause of any of the phenomena of trade, and credit, and prices?

state that Mr. Richardson, the manager of that bank, came up to London to solicit assistance from the Bank of England, and returned *without having obtained it.* That in itself is sufficient to satisfy any person that the case of that establishment was not recommended to the favourable consideration of the Bank of England by the government. It is true that the bank was assisted to a large amount by the branch Bank of England at Newcastle, the manager of which was Mr. Grote, the brother of the gentleman of that name whom many gentlemen remember with pleasure as a member of this house. Mr. Grote, fearful of *the ruin* which the possible suspension of the District Bank might cause in the neighbourhood, *took on himself the responsibility of affording it*, to a very large extent, by advances on the securities which they placed in his hands, the means of meeting a formidable run which was made upon it on Friday and the early part of Saturday.* The measure was quite successful, and in the afternoon of Saturday many of the parties who had drawn out their money came to the bank and tendered it again in deposit, and the credit of the bank, of whose ultimate solvency there never could be a doubt, was re-established. About this time the sense of danger was seriously aggravated by *an application for assistance to the Bank of England from some Scotch banks.* It has always been supposed that the banks in that country rested upon so safe a footing that they were able to take care of themselves, and that, consequently, it would never be necessary for them to seek for assistance from the Bank of England; but on this occasion the application was made, and certainly the statement laid before the Bank was of a nature to excite alarm; because, looking to the enormous amount of the deposits in the Scotch banks, however solid and sure may be the ultimate security of those establishments, the temporary embarrassment of any portion of them could not have failed seriously to aggravate the existing pressure in this country. The Bank of England was pressed directly for assistance from all parts of the country, and indirectly through the London bankers, who were called upon to support their country correspondents. The country banks required a large amount of notes to render them secure against possible demands, not so

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* What a reflection is this upon the Act of 1844, and upon the reluctance of government to interfere! Sir Charles Wood takes credit for the fact that the government did not recommend the case of the District Bank of Newcastle to the favourable consideration of the Bank of England; and he admits that but for the boldness of Mr. Grote, the manager of the branch of the Bank of England at Newcastle, the District Bank would probably have failed — a failure which at that critical moment would have caused ruin and confusion in that populous and important neighbourhood.

much for payment of their notes, as of their deposits. Houses in London were applying constantly to the Bank for aid. Two bill-brokers had stopped, and the operations of two others were nearly paralysed. The whole demand for discount was thrown upon the hands of the Bank of England. Notwithstanding this, the Bank, as I before said, never refused a bill which it would have discounted at another time, but still the large mass of bills which under ordinary circumstances are discounted by bill-brokers, could not be negotiated.

"During this period we were daily, I may say almost hourly, in possession of the state of the Bank. The Governor and Deputy-Governor at last said that they could no longer continue their advances to support the various parties who applied to them, that they could save themselves, that is, they could comply with the law, but that they could not do so without pressing more stringently upon the commercial world.

"At this crisis a feeling as to the necessity of the interposition of government appeared to be generally entertained, and those conversant with commercial affairs, and least likely to decide in favour of the course which we ultimately adopted, unanimously expressed an opinion, that if some measures were not taken by the government to arrest the evil, the most disastrous consequences must inevitably ensue. Evidence was laid before the government which proved not only the existence of severe pressure from the causes which I have stated, but also that it was aggravated in a very great degree by the hoarding on the part of many persons of gold and Bank notes to a very large extent, in consequence of which an amount of circulation, which under ordinary circumstances would have been adequate, became insufficient for the wants of the country.

"It was difficult to establish this beforehand; but the best proof of the fact is in what occurred after we interfered. As soon as the letter of the 25th of October appeared, and the panic ceased, thousands and tens of thousands of pounds were taken from the hoards, some from boxes deposited with bankers, although the parties would not leave the notes in their bankers' hands. Large parcels of notes were returned to the Bank of England cut into halves, as they had been sent down into the country, and so small was the real demand for an additional quantity of notes, that the whole amount taken from the Bank, when the unlimited power of issue was given, was under 400,000*l.* The restoration of confidence released notes from their hoards, and no more was wanted, for this trifling quantity of additional notes is hardly worth notice. I think, therefore, that I am fully borne out in the assertion, that the notes in the hands of the public were amply sufficient for the purposes of trade, but that their circulation was paralysed by panic; and this was the general purport of the representation which we received. Parties of every description made application to us

for assistance, with the observation, 'We do not want notes, but give us confidence.' They said, 'We have notes enough, but we have not confidence to use them; say you will stand by us, and we shall have all that we want; do anything, in short, that will give us confidence. If we think that we can get Bank notes, we shall not want them. Charge any rate of interest you please, ask what you like.'

"Mr. Spooner: 'No, no.'

"The Chancellor of the Exchequer: I beg pardon of the honourable gentleman, but I may be permitted to know what was actually said to me. I say that what I have stated was the tenor of the applications made to me. Parties said, 'Let us have notes; charge ten, twelve per cent. for them — we don't care what the rate of interest is — *we don't mean indeed to take the notes, because we shall not want them — only tell us that we can get them, and this will at once restore confidence.*'

"We have been asked, what was the change of circumstances which induced us to act on Saturday, when we declined acting a day or two before. I reply, that the accounts which we received on Thursday, Friday, and Saturday, were of a totally different description from those which had been previously brought to us, and we were convinced that at length the time had arrived when, in the words of Mr. Huskisson, in the pamphlet to which I have already referred, 'the stagnant and straitened circulation of the country wanted life and aid, and became every day more embarrassed, whilst each new calamity, produced by such a state of things, contributed to spread and increase the general apprehension.' It was on Saturday, and not before, that this conviction was forced upon us, and it was not till then that we felt it necessary to sanction a violation of the law. I took the greatest pains to sift the accuracy of the statements which were made to me. *I do not wish to deny that I was most unwilling and reluctant to interfere, but I felt that I* should be utterly unworthy of the office which I have the honour to hold, if when the conviction was forced upon me that interference was for the public good, I had hesitated for one instant to do what I believed to be right in consequence of any opinions which I might have formerly expressed.

"Having determined to act, there was, of course, the question in what mode we should carry our intentions into effect. I do not mean that this question had to be considered after we had determined to act, for very soon after my arrival in town it became my duty to consider the matter, and we — that is my noble friend and myself — had made up our minds as to the best course of action. I should have been glad if we could have taken any course which would have been equally efficacious *without running the risk of infringing the Act of* 1844."

The description thus given by Sir Charles Wood

of the imminent perils which awaited any further delay, and of the relief which so immediately attended the application of the remedy, was evidently intended to reconcile the more fanatical of the adherents of the Act of 1844 to the necessity of a conditional suspension of its provisions. And their acquiescence was very reluctantly granted. During the height of the pressure, their language had been that of exhortation to the government to be firm in its resistance to all application for relaxation. They contended that, as the existing distress arose from the extraordinary expenditure upon railways, followed by the failure of the potato crop, entailing a great loss of the national capital, no interference of government could immediately supply that loss by the creation of fresh capital; that it might, indeed, authorise the Bank to create more notes, but that the effect of thus creating and issuing more "paper money" would only be to reanimate speculation in railways, and to raise prices, and by withdrawing gold from the issue department, to endanger the convertibility of Bank notes. And that as to the existing discredit, the numerous failures which had occurred were the legitimate consequences of overtrading; and that to invoke a cessation or abatement of the hurricane then raging in the commercial world, would, if the prayer were granted, only delay the fall of houses which, for the common good, ought to fall.

The late Mr. Windham, who was secretary at war many years ago, is reported to have exclaimed—I forget the precise occasion—"Perish Commerce, live the Constitution!" The language held by some of the currency theorists on this occasion, might not unfairly be construed into "Perish Commerce, live the Act of 1844!"

To the first of these objections to interference, the simple answer was, that though the government could not create capital, it might release that

which was withheld from use by the Act of 1844, in the issue department. And the event proves that none of the evils predicted followed the temporary removal of the restriction.

With regard to the second objection, it may be observed that the letter of the 25th of October, which stilled the storm, did not save weak, or even preserve from failure, or difficulty, some solvent, houses:—witness the failures and difficulties which unfortunately marked the month following the 25th of October. On the other hand, there cannot, I imagine, be the shadow of a doubt that, if that relaxation had been withheld, there would have been, during the week commencing on that day, a state of things exceeding in the intensity of mercantile and banking derangement and distress even that which was felt during the memorable week following the 12th of December, 1825, of which I shall have to give an account in the following section.

Sir Charles Wood, in his speech of the 30th of November, entered into an elaborate statement of the causes which had led to the extensive failures which so disastrously marked the period from the beginning of August to the end of November.* In the main part of his exposition of those causes I am disposed to concur. There can be no doubt that the previous facilities of the money market, or, in other words, of banking accommodation, led to an unsound state of credit; and in no branch of the commerce of the country has the extension and abuse of credit been more signally exhibited, or attended with more disastrous results, than in the East India trade. There appeared in the *Manchester Guardian* of the 24th of November a very

* In the November number of the *Bankers' Magazine*, page 587, it is estimated that from the commencement of the month of August last, the total amount of liabilities which would have to be liquidated under the inspection of creditors, amounted to 17,000,000*l.* Other computations have been made, which raise the estimate above 20 millions.

striking account of the manner in which that trade had, of late, been conducted. The whole of the article is too long for insertion, but the following extract from it will suffice for a general view.

"The India trade has been one huge system of credit. If goods were bought in Manchester, by a house in London, they were paid for by bills at six months' date; and, as soon as shipped, an advance was obtained again by a bill at six months for a large part of the first cost, by the consignee, who, again, in his turn, not unfrequently drew upon the house in India, against the bills of lading when transmitted. The shipper and the consignee were thus both put in possession of funds, months before they actually paid for the goods; and, very commonly, these bills were renewed at maturity, on pretence of affording time for the returns in a 'long trade.' Moreover, losses by such a trade, instead of leading to its contraction, led directly to its increase. The poorer men became, the greater need they had to purchase, in order to make up, by new advances, the capital they had lost on the past adventures. Purchases thus became, not a question of supply and demand, but the most important part of the finance operations of a firm labouring under difficulties.

"But this is only one side of the picture. What took place in reference to the export of goods at home, was taking place in the purchase and shipment of produce abroad. Houses in India, who had credit to pass their bills, were purchasers of sugar, indigo, silk, or cotton, — not because the prices advised from London by the last overland mail promised a profit on the prices current in India, but because former drafts upon the London house would soon fall due, and must be provided for. What way so simple as to purchase a cargo of sugar, pay for it in bills upon the London house at ten months' date, transmit the shipping documents by the overland mail; and, in less than two months, the goods on the high seas, or perhaps not yet passed the mouth of the Hoogly, were pawned in Lombard Street, — putting the London house in funds *eight* months before the drafts against those goods fell due. And all this went on without interruption or difficulty, as long as bill brokers had abundance of money 'at call,' to advance on bills of lading and dock warrants, and to discount, without limit, the bills of India houses drawn upon the eminent firms in Mincing Lane. But the first breath of discredit, the first great scarcity of money, has thrown the entire system into confusion. The first link that broke shattered the whole chain to pieces. But we fear, that in the fall, many houses deserving a better fate, actuated by more legitimate and *bonâ fide* motives, have been carried away in the common wreck."

That there has also been a great deal of reckless-

ness in other branches of trade, has been made but too manifest by the painful disclosures to which so many of the late failures have led; and that business, so conducted, must inevitably have a ruinous result cannot but be admitted. Accordingly, Sir Charles Wood is quite triumphant in replying to the persons whom he considers as asserting "that those failures were occasioned *solely* by the stringent operation of the Act of 1844." But I have never heard any one having the slightest acquaintance with commercial affairs allege *that* as the sole, or originating, cause of the extensive failures which have recently occurred. He is, therefore, when rebutting that charge, fighting with a shadow, — a very convenient mode, according to approved parliamentary tactics, of diverting attention from a weak point. The charge against the act is not that it was the originating cause, but that it greatly *aggravated* the operation of all the other existing causes of commercial failures and distress. And it would pass my comprehension to conceive how any person of competent understanding and knowledge could doubt that such must have been its effect, were it not that I am fully aware of the operation of a sectarian feeling for a theory, in blinding those who are under its influence to the most palpable evidence of reasoning and facts, if these are found to militate with the doctrines of the sect.

According to the view which I have endeavoured to present, and which, I believe, to be perfectly correct, the operation of the Act has been to convert what would have been a moderate rise in the rate of interest, in April last, into an intense degree of panic, entailing most ruinous sacrifices of property. These sacrifices must have fallen with peculiar weight on the houses which stood most in need of credit at that critical period, and cannot have failed to deepen the insolvency of those which

were then insolvent, and also to weaken many which were solvent at that time, in such a degree, as to insure their fall in the second, and still more violent shock in the autumn; so that, in that second shock, which was distinctly attributable to the absurd provisions of the Act, several houses fell which otherwise would have stood.

Without, however, dwelling more upon these points at present, I propose to institute a comparison between the monetary derangement which has so fatally characterized the year 1847, with the ever memorable one of 1825. Lord Ashburton, writing in May last, when the phenomena of the shock just then subsiding were alone under observation, expressed his opinion that there were strong traits of resemblance between 1825 and 1847. Whatever may then have been the points of similarity, they are much more numerous, and strongly marked, now that we have the lamentable features of the commercial distress of last autumn to add to the picture.

SECTION 18. — *Comparison of the Crises of* 1825 *and* 1847.

In 1825 there was only one period of panic.

In 1847 there were two such periods, broadly distinguished.

In 1825 the Bank of England did not vary its rate of discount from 4 per cent. per annum (for all admissible paper), nor the term of the bills, during the whole progress of the drain upon its treasure, till the 13th of December, when the rate was raised to 5 per cent. per annum; but this advance was accompanied by an extraordinary extension of the amount of accommodation. . . .

In 1847 the Bank of England varied its rate of discount thirteen times*; but the published rate was only a minimum, and the variations of the actual rate charged, according to the number of days the bills had to run, (in no case exceeding ninety-five,) and their quality, were doubtless much more numerous; and, at one time, the total amount of paper, admissible for discount, was limited. And in several of the instances, the rise of rate was accompanied by restrictive conditions.

In 1825 the speculations were for the most part

* The following is a statement of the alterations of the Bank rate of interest in the course of 1847. On the 1st of January, 1847, the notice of the 27th August, 1846, fixing the minimum rate at 3 per cent. per annum on 95 days' bills was still in force: —

	1847.	Per cent. per ann.	
1.	14th Jan.	3½	minimum on 95 days' bills.
2.	21st „	4	„ „
3.	8th April	5	„ „
4.	15th „	5	omitting all stipulation as to the term of the paper.
5.	2nd Aug.	5	on 1 month bills; 5½ on 2 months; 6 per cent. above 2 months.
6.	5th „	5½	minimum rate.
7.	2nd Sep.	5	on loans till 14th Oct.
8.	23rd „	5½	on 2 months' bills; 6 per cent. on 3 months.
9.	1st Oct.	5½	on every thing falling due before 14th Oct.; and total refusal to advance on public securities.
10.	25th Oct.	8	minimum rate under authority of the government letter of this date.
11.	22nd Nov.	7	minimum rate.
12.	2nd Dec.	6	„
13.	23rd "	5	„

And on the 27th of January, 1848, the minimum rate was reduced to *four* per cent.

in loans and mining adventures, and other investments *abroad.*

In 1847 the speculations were chiefly directed to railways and other projected improvements *at home.*

In 1825 there was no importation, or none worth mentioning, of foreign corn; but notwithstanding the absence of this, which has been the frequent cause of a demand for gold for exportation, the foreign exchanges were so much depressed as to be the cause of a nearly continuous drain on the bullion of the Bank till near the end of the summer of that year.

In 1847 the importations of corn, flour, and meal were of unprecedented magnitude and value, and were the immediate cause of the depression of the exchanges, which led to a sudden and great demand for gold for exportation. This ceased by the end of April, and was slightly renewed in July and August, but thenceforth ceased altogether.

In 1825 the foreign drain was not counteracted by any operation of the Bank Directors*, which I am ready to admit that it ought to have been. It was suffered to run its course; and might therefore be said to have ceased of its own accord; that is, by simple efflux, towards the close of the summer.

In 1847 the foreign drain was counteracted by the most violent efforts of the Bank of England; and ceased after the early part of August.

The two periods agree in the circumstance that, after the demand for gold for exportation had ceased, there supervened a drain upon the bullion in the Bank by an internal demand for gold.

In 1825 banking failures, and a state of com-

* Unless the sale of about one million in exchequer bills in September be considered in that light.
See Mr. Harman's evidence, Bank Charter Report, 1832.

mercial discredit, preceded and formed the earlier stage of the panic.*

In 1847 the panic of April was not preceded, or accompanied, or immediately followed by mercantile or banking failures, or by any appearance of commercial discredit. It arose from a rapid contraction of banking accommodation; and was aggravated by the fear of still greater restriction from seeing the narrow margin of the Bank reserve.

The panic of October 1847 had more features of resemblance to that of 1825; having been accompanied and much aggravated by commercial discredit and distress.

When the two panics of 1847 were at their height, the bullion in the Bank of England amounted to about nine millions; whereas in the crisis of 1825 it was reduced to about one million.

Both in 1825 and in 1847 the tendency to speculation, and to an undue extension of credit, was preceded, and probably caused, and most certainly was favoured and promoted, by the low rate of interest which had existed for some time previously; and this low rate of interest was apparently prolonged, in each case, by the operations of the Bank of England.

The greatest variation, on each occasion, in the price of 3 per cent. consols was, from the highest, 28th of April, 1824, $97\frac{1}{4}$, to the lowest, 14th February, 1826, $73\frac{7}{8}$; and from the highest, December 2, 1844, $101\frac{3}{8}$ (with div.) to the lowest, October 1847, $77\frac{3}{4}$.

In the autumn and winter of 1824–5, the Bank, when its stock of bullion was declining, when

* Here, however, it is requisite to bear in mind an important difference between the state of the bank-note circulation as it was in 1825 and in 1847. At the former period, the small notes of the country banks were still in circulation in England and Wales; and it was through this medium that the severest part of the run was brought to bear upon the country bankers.

already the spirit of wild speculation which reached its acme a few months afterwards, was showing itself, and when assuredly no increase of banking accommodation could be really wanting, extended its securities from 20,904,530*l.* on the 31st of August, 1824, to 24,951,330*l.* on the 28th of February, 1825.

It is true that the engagements between the Bank and Government, which led to the greater part of that increase, had been entered into* while (January, 1824) the stock of bullion was very large, viz. 14,200,000*l.*; but still the fact remains that those operations prevented, or, at least, retarded a rise in the market rate of interest. If the Bank had not taken the dead weight, the Government must have resorted to a loan. And if the Bank had declined to engage to pay off the dissentients on the reduction of the 4 per cents to 3½ per cent, either that measure must have been postponed, or some equivalent must have been resorted to. In either case there would have been less facility in the money market; in other words, some rise in the rate of interest; which, at that time, could not but have had a salutary effect in checking, in some degree, the then rising spirit of speculation.

The reduction by the Bank of its rate of interest, immediately on the act of 1844 coming into operation, and in accordance with what was then understood to be the spirit of that act, had, as I have before observed, the effect of extending the railway speculations then manifesting themselves. And there can be no doubt that the same facility of banking accommodation favoured the undue extension of credit, in other undertakings, both at

* The purchase of the dead weight annuity had been agreed for by the Bank in 1823; and the undertaking to pay off the dissentients from the reduction of the 4 per cent. stock to 3½ per cent. had been entered into in January, 1824.

home and abroad. Both in 1825 and in 1847 the expansion of credit, the abuse of which caused the commercial embarrassments of those periods, had, in some degree, been promoted by the conversion, in the two or three years preceding, of a large portion of the government stocks into lower denominations of the interest payable on them.* In such cases, a feverish anxiety is apt to prevail among those who, rather than submit to the reduced rate of interest, have consented to be paid off; and having been thus, in a manner, forced out of government securities, they seek investments which, while promising a larger income, involve more hazard.

In 1825 there had been extensive speculations in produce other than corn, both by purchases on the spot, and, to a greater extent abroad for importation.

In 1847 there were not, and had not recently been, any speculations in commodities or produce other than corn. There had been some speculation on the short cotton crop of the United States in 1846, but it had ceased soon after the close of that year (see page 71, *antè*). Corn speculations had been engaged in to an enormous extent.

In 1825 the market rate of interest was lower, exclusively of the period of panic, than in 1847: the higher rate in the latter year being mainly attributable to the extraordinary absorption of capital in railways.

In 1847 *each* of the two panics of April and October was of longer duration than the single panic of 1825.

In 1825 the great severity of the pressure can hardly be said to have been of longer duration than about three weeks. It may be considered to have begun with the announcement of the

* The reduction of the new $3\frac{1}{2}$ per cents. was effected in 1844.

failure of the Bank of Sir William Elford and Co. at Plymouth; but the greatest alarm and discredit occurred in the interval of about a fortnight, ending the 19th of December. During that interval the intensity of suffering was greater than in the equal interval, ending the 23d of October, 1847. The following extracts from the file of the *Times* newspaper in 1825. afford striking specimens of the intensity of the panic, and the prodigious sacrifices of property which were made, chiefly, it was understood, by bankers, in order to sustain themselves against the suddenness of the demands then made upon some of them.

"*Friday*, 9th *Dec.*, 1825.—(City article.) The failure of the banking house of Wentworth, Chaloner, and Co., of 25 Threadneedle Street, was announced yesterday. The firm is identical, we believe, with two banks in the country — one at Wakefield, and the other at York — which will of course stop payment also, as soon as the intelligence shall reach them. As a London house, their business seems to have been chiefly confined to the agency of the banks in Yorkshire, so that as far as the city is concerned, its failure is considered an event of no great importance. In the country, however, the calamity cannot fail to prove a very serious one, as their local notes were in very general circulation among the small manufacturers.

"*Saturday*, 10th *Dec.*, 1825. — (City article.) — Yesterday was a day of comparative tranquillity in the city, no commercial disasters of importance having transpired, and men in general finding consolation, as is usually the case, from the absence of any thing detrimental. * * * *

"It is understood that the panic produced by the failure of Wentworth and Co. caused a run yesterday on several of the London bankers, but they were all perfectly well prepared to meet it, and no inconvenience whatever followed. * * *

"On the Stock Exchange the natural consequences of a quieter state of things out of doors was produced. The market was steady throughout the day, and whatever variation occurred, both in the foreign and English funds, was chiefly in favour of improvement. The only exception was in exchequer bills, large amounts of which were sold by the London bankers.

"*Monday*, 12th *Dec.*, 1825. — (City article.) — Consols for the January account closed on Saturday at about one half per cent. lower than on the preceding day, having left off at 83½. The market had been particularly buoyant in the early part of the day, when the same stock reached 84. . It appears

that the extreme difficulty in procuring accommodation on commercial bills (indeed, the scarcity of money was so great, that discount was refused, in some cases even on Navy bills,) had compelled many merchants and bankers to resort to the stock market, where 3 per cent. Reduced, and Exchequer bills to a very large amount were sold. The stock maintained its value, notwithstanding the large amount poured in; but Exchequer bills fell to a discount of 35*s.*

"*Tuesday*, 13th *Dec.*, 1825.—(City article.)—An indescribable gloom was diffused through the city yesterday morning, by the knowledge of the fact, previously suspected, that the house of Sir Peter Pole, Thornton, and Co., of Bartholomew Lane, bankers, did not open for business. The house was among the most considerable in London, the firm being agents for no less than forty-seven provincial banks. * * * It ought to be observed, since the declaration can no longer be injurious, that this is the house adverted to on a former occasion as having received assistance from the Bank, on laying before the directors such a statement of their affairs as was admitted at the time to be satisfactory. The amount advanced by the Bank is said to have been near 300,000*l.*, and that sum, it was alleged, would be sufficient to secure the house against any further danger. In a week from that time, however, the firm has suspended its payments. * * * * The letters from the country brought intelligence of the failure of two provincial banks, one at Huddersfield, the other at Maidstone; the latter was one of the agency banks of Pole and Co. * * * * An extraordinary number of country bankers from all parts of England were in town yesterday, either for the purpose of procuring specie and bank notes as a protection against a run upon them, or to ascertain by their own observations the state of affairs among their London friends. Several of them were to be seen in most of the leading banking houses, anxiously waiting their turn for an interview with the principals. * * * * The gloom without doors, and the events which produced it, were sensibly felt at the Stock Exchange. Such was the pressure to effect sales of exchequer bills, that those securities not only fell to an enormous discount, but the brokers who deal in them, and who are few in number, became so much alarmed, that they closed their books, and actually refused for a short time to engage in any transactions whatever. At that period the current quotations were 50*s.* discount, but some purchasers at that price having appeared in the market, the brokers took courage, and business went on as usual. The discount afterwards fell to 60*s.*, and even on those for which money may be obtained at the Exchequer at a day's notice the discount was 25*s.*, in other words, a holder preferred receiving his 100*l.* *minus* 25*s.* to-day, rather than wait till to-morrow to receive his 100*l.* in full. India Bonds were at 45*s.* discount; Three per Cents. Reduced fell to 79, and

Three-and-a-Half per Cents. to $84\frac{1}{2}$; sales being particularly pressed in those stocks, the books of which are still open for transfers. The same facility, however, was given at the Bank as was done on Saturday in making transfers of Three per Cent. Consols; and such transfers were effected to a large amount, though at a sacrifice of 1 per cent. or more, as compared with prices for the opening in January.

"*Wednesday*, 14th *Dec.*, 1825.—(City article.)—The agitation and alarm in the City have as yet experienced no abatement. At an early hour yesterday morning it was announced that another London banking house had suspended its payments. * * * Some of the houses in Lombard Street and its immediate neighbourhood were also besieged with crowds of people on some false alarm given — a manœuvre, which appears to have been adopted for the purpose of picking pockets. In one instance, as we have heard, on Monday evening, a house which had closed its shutters on account of the fog and lighted candles, was actually for no other reason reported to have stopped payment. * * * * The difficulty of raising money on stock, bills, or any species of security, whether private or public, is entirely without example in the City of London. The rate of interest, wherever any species of accommodation is afforded, cannot be estimated in some cases at less than 50 per cent. As the usury laws form a bar to ordinary transactions of this nature, various plans are said to be adopted to evade their operation. For example, the current price of Consols for the January account being 83, any person wishing to convert that stock into ready money would not obtain offers for it at more than 79. At that rate the money for it is paid, and as soon as the transaction is completed the purchaser can sell the same stock for the January account at 4 per cent. advance. He will receive his money for it in the middle of January, and thus gain more than 50 per cent. per annum for its use in the intermediate period. * * * * In the foreign exchanges an advance was produced by the scarcity of money.

"*Thursday*, 15th *Dec.*, 1825.—(City article.) — Another day of agitation and alarm has passed over the City. As early as nine o'clock in the morning, the hour at which business commences in the London banking houses, it was ascertained that two of them had suspended their payments. * * * * The Bank directors assembled again yesterday, and displayed much energy in administering to the relief of the persons who made applications in various forms for assistance. Among the first of them was an eminent country banker, who had been in town the whole of Tuesday, vainly endeavouring to raise 50,000*l.* on securities worth double that sum. * * * * The Bank directors have also given way on a point respecting which they have hitherto resisted all applications, viz., in lending money on the security of Government or of Bank Stock, and large sums were yesterday

advanced on such securities, particularly to country bankers, who had to state that they were wholly unable to convert them into money in the open market, except at enormous sacrifices. * * * * The Stock Exchange exhibited the same scene yesterday as on the two preceding days. The interest of money, as derived for the 'continuation' in stock, or the difference between the price for immediate transfer and for the account, was greater than in any former instance. A sale of Consols for money was made at 76½*, when the price for the opening was 82½, which would yield interest at the rate of 70 per cent. per annum.

"*Friday*, 16th *Dec.*, 1825.—At the Stock Exchange yesterday afternoon a large amount of 4 per cent. stock, the books of which are now closed for the dividends, was offered for sale. The condition was, that it should be *paid for immediately in Bank notes, and a large sacrifice in the price would be made for that accommodation. The bargain was struck at* 93; *but all the money in notes the jobbers in that stock could raise was* 50,000*l.*, *though it had been intended to sell a much larger amount.* No doubt can be entertained, from the nature of this transaction, that it was effected for a country banker, to whom immediate supplies were indispensable: *but the extraordinary sacrifice made may be estimated when it is remarked that the party could have sold the same stock for the next day at* 97, *and probably at* 102½ *for the opening of the books in January.* The Bank, as usual, allowed the private transfer, the necessity of which accommodation is now so fully established that it is granted as a matter of course.

"*Monday*, 19th *Dec.*, 1825.—(City article.)—It was reported in the city, late on Saturday afternoon, that at the Cabinet Council held on Friday evening, and which sat till near two o'clock on the following morning, the determination was adopted of suspending for a short time payments in specie at the Bank. We cannot pretend to state that such was absolutely the case; and the false alarms which are circulated at this period require that every piece of information should be very cautiously weighed before it is given to the public; but we receive this from a quarter in which we are so accustomed, from long experience, to place reliance, that we feel fully justified at least in mentioning it. Rumour adds that the measure is not only to be temporary, but that the power of acting under the suspension of legal payments is not to rest solely with the court of directors, a board of control being to be appointed to regulate the issues of Bank notes.

"The sacrifices made on sales of Consols for money continue to be enormous, and prove that there has been no abatement

* As this price included the dividend due in January, it would be about 75 ex. div.

hitherto of the unexampled scarcity of money in the City. Late on Saturday afternoon a sale of Consols for money was made at 77, the purchaser of which immediately sold them for the opening in January at 81½, thus gaining 4½ per cent. *per mensem* for the use of his capital.

" *Tuesday*, 20th *Dec.*, 1825. — (City article.) — Yesterday morning, at 10 o'clock, a letter from J. C. Herries, Esq., dated Treasury Chambers, Dec. 17th, was read at the Bank, in which notice was given that Government has raised the interest of all exchequer bills outstanding to 2*d.* per cent. *per diem*, and that the increase is to take place from yesterday. It will be recollected that the exchequer bills of a particular description, viz., those dated in October, November, and December, 1824, have been called in, the holders having the option of money, or new bills at 2*d.* per cent. *per diem*. The advance of interest, therefore, becomes general over all the issue. It is evident, however, that in the present state of the money market such an advance must be perfectly nugatory, as was sufficiently proved yesterday on the circulation of this notice, after which exchequer bills fell to a discount of 80*s.* Indeed, had the interest been advanced to 3*d.* it is obvious that the bills could have found few purchasers in a market where, owing to the exigency of the moment, capitalists are enabled to make a profit of 50 per cent., and, consequently, must have been at a discount. It had been far better, therefore, to leave those securities in their present state, than to betray weakness by thus altering the interest on them without effect.

"*Wednesday*, 21st *Dec.*, 1825.— (City article.) — The improvement was pretty general yesterday in every description of Government security. Consols for January opened at 79½, and declined to 79¼, but experienced shortly afterwards a rapid advance to 80¼, and after declining to 80, left off with a firm appearance at 80⅝ buyers. In the 3½ per Cents. a very rapid advance occurred, that stock having opened at 81¾; then, with scarcely any intermediate price, it rose to 85, and closed at 87. The 3 per cents. Reduced left off at 79. Exchequer bills after having been at 85*s.*, closed at 25*s.* discount; and India Bonds, which opened at 75*s.*, closed at 25*s.* discount."

On the state of things in 1825, the following remarks by Lord Ashburton, who was called into counsel with the government on occasion of the extreme pressure felt in December of that year, cannot but be allowed to be of great interest.

" The withdrawing of the metals from the coffers of the Bank will be determined by one of two causes: —

"1st. Either by a panic and distrust, commercial or political, within the country; or,

"2ndly. A demand to send them abroad, in consequence of an unfavourable state of the foreign exchanges.

"In 1825 the drain was entirely of the former description.* The exchanges were favourable; there was no demand upon us from abroad; but the Bank was exposed, not to a partial drain, but to being completely exhausted and run dry; and as I was on that occasion called in to counsel with the late Lord Liverpool, Mr. Huskisson, and the Governor of the Bank, the symptoms and their treatment are very distinctly in my recollection. The case was this. Adventures of the most wild and hazardous description, assisted, though it can hardly be said that they were created, by facilities given by the Bank, were followed by an entire prostration of the credit of all parties, with the single exception of the Bank of England. Private bankers in town and country fell in numbers, and the panic naturally consequent on such a state of things produced a rush upon the most wealthy and solid establishments by all who had claims upon them, either by holding their notes or as depositors; and it is worthy of remark that the claims of the depositors were always the most formidable. They called for their hundreds, while the holders of notes, though more numerous, came for single pounds. This sudden alarm, stopping in the first instance all circulation of credit, obliged every country banker to draw from London all the sovereigns out of the Bank; and the extent of their demand will be best explained by the statement of one of the most wealthy and respectable of those bankers to me, that he could not sleep till he had gold in his house for every note he had out. It may well be supposed that this was not accomplished without great sacrifices; but to a banker no price is too dear for the maintenance of the purest credit, and even at this moment the public will never know the individual losses occasioned by the present pressure: these are secrets which few are able to make public with impunity.

"The gold of the Bank was drained to within a very few thousand pounds; for although the public returns showed a result rather less scandalous, a certain Saturday night closed with nothing worth mentioning remaining. The application made to Lord Liverpool was for an Order in Council to do that which necessity seemed about to accomplish — the suspension of cash payments; and this gave rise to the conference I have mentioned between Lord Liverpool, Mr. Huskisson, the Governor of the Bank, and myself.

"We recognised at once the following facts in this case — for, as has been already observed, the position of things in cases of alarm and pressure are seldom or never exactly similar.

* This is not quite correct. The exchanges were adverse, and the demand was from abroad, till after July.

"The credit of the Bank for all domestic purposes was perfect. There was no man in the country who was not ready to take its paper as a means of circulation, and to give even his gold for it, the moment he was assured that his neighbour would take it from him again. The gold was not wanted to send abroad; the state of the foreign exchanges forbade it; there was, therefore, no fear of depreciation of paper. The necessity and pressure were purely domestic: what was wanted was something which everybody was disposed to trust as a substitute for what everybody distrusted; and the paper of the Bank of England answered in such a state of things the purpose as well as gold—it may be said to have done so even better, as being more transmissible, and reaching more readily and rapidly the points where it was wanted.

"In this state of things the remedy for the difficulty was obvious, and unanimously agreed to by us. Although the Bank had no specie left, a large additional issue of notes was made, and about 1,500,000*l*., of those of 1*l*.*, which were accidentally found to be in existence, were circulated: the relief was immediate, the country received a circulating currency in which everybody had entire confidence, and the useless gold was returned to the Bank. The notes by this proceeding were increased from 19,748,000*l*. in December, 1825, to 24,479,000*l*. in March, 1826; and having served to relieve the pressure, they gradually subsided before the end of that year to their ordinary amount again of 19,951,000*l*., while the bullion in the Bank was successively increased by this increase of paper in opposition to the theory of 1844, which presumes from such cause a necessary diminution.

"It is hardly necessary that I should guard myself from being supposed to maintain that an increased issue of paper is an invariable remedy against a drain of specie; but what I do maintain is, that it was the fit remedy for that particular case, and that it was undeniably proved to be so by the result, while a contrary treatment might have suited a drain caused by adverse exchanges. But the Act of 1844 says that all cases of drain shall be treated in the same manner; that there shall be no discretion or judgment allowed as to causes; and my reason for dwelling so long on the case of 1825–6 is to substitute for speculative reasoning a clear proof that the Act of 1844 not only would not have suited that case, but would have aggravated

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* The amount of 1*l*. notes *immediately* applicable did not exceed the sum of 700,000*l*. to 800,000*l*. There had been an amount of near 400,000*l*. long outstanding, and apparently not in circulation; and further sums were prepared and issued in the spring of 1826, making the amount altogether between 1,500,000*l*. and 1,600,000*l*.

all the difficulties; that it consequently is not of universal application, and therefore cannot, without danger, be suffered to govern indiscriminately our circulation.

"I think I might stop here, and hold that I had proved enough by positive facts and results, and not by mere brain-spinning, the fallacies on which this Act is founded. Its machinery does not suit the case of pressure on the Bank from domestic distrust and panic, and these must always be a large and formidable portion of our monetary visitations. It may also be shown, though perhaps not by the same pregnant proof from past facts, that it is not always suited as a remedy for the other causes of a drain of the Bank's coin. It must be admitted that the difficulties under which we are now labouring have no reference to the causes I have before mentioned of domestic discredit existing in 1825; on the contrary, the commercial credit of the country is truly said to be more than usually sound*, but the circulation of that commerce never was more severely distressed, and that mainly by the operations of the Bank, acting under the terrors of the law by which it is fettered."—(*Financial and Commercial Crisis Considered*, pp. 11–15.)

From this statement by Lord Ashburton, it might seem that the measure carried into effect by the Bank of England, on the 13th of December, of granting an enormous and almost indefinite extension of accommodation in the way of discounts and advances, was not only sanctioned but suggested by the Government. According to the evidence of Mr. Harman and Mr. Palmer, however, the Government took no responsibility, but threw the whole of it on the directors. But whether the design of the measure originated with Government or with the Bank directors, the merit of it was very great. It was as judicious as it was bold; and it proved to be eminently successful. There cannot, I think, be a doubt, but that it averted the necessity of a suspension of cash payments.

The lowest amount of the Bank treasure was, on the 24th of December, viz.

Coin - - -	426,000*l*.
Bullion - - -	601,000*l*.
	1,027,000*l*.

* This was written early in May, 1847.

But according to the evidence of the governor of the Bank*, the demand had so far ceased by the seventeenth of that month, that the directors thenceforward felt easy.

The accidental discovery (for such it was said by Mr. Harman, in his evidence in 1832, to have been) of an amount of 1*l.* notes, which had been put away in the Bank, was, doubtless, a fortunate circumstance; for although the sum was not large, (between 7 and 800,000*l.*,) it served to meet the peculiar difficulty of that time, which consisted in an extensive discredit of the small note country circulation. And it is probable that it had an immediate, and very great effect in stopping the demand from the provinces for gold. Alone, however, it would have availed but little towards relieving the intensity of discredit and distress which prevailed in London, and in the great trading and manufacturing towns of the kingdom. The measures of the Bank for relieving these were on the largest scale. Discounts, loans, and advances were made upon all descriptions of securities that had any pretension to solidity. Upon this point I may cite the evidence of Mr. Harman†, who was a director at that time.

"2217. Will you describe the manner in which the Bank lent its assistance at that time?—We lent it by every possible means, and in modes that we never had adopted before; we took in stock as security; we purchased exchequer bills; we made advances on exchequer bills; we not only discounted outright, but we made advances on deposit of bills of exchange to an immense amount; in short, by every possible means consistent with the safety of the Bank; and we were not upon some occasions over-nice; seeing the dreadful state in which the public were we rendered every assistance in our power."

And of Mr. Horsley Palmer, who was also then in the direction:—

* Bank Charter Report, 1832, page 405.
† Bank Charter Report of 1832.

"583. You have stated, generally, that you conceive that under circumstances of particular pressure in London, a Bank, composed as the Bank of England is, of commercial men, could afford facilities which a government bank could not afford — do you think that in the year 1825, at the period of the panic, if there had been a government bank in existence, managed by commissioners, they could have afforded the same facilities, and would have been willing to have run the same risks to relieve the credit of the commercial body in London that was done by the Bank of England at that period? — I do not think it could have been readily managed by commissioners, when I see the magnitude of the aid which was given on that occasion. *I see from the paper in my hand, that upon one occasion, on the 8th Dec.*, 1825, *the discounts of the Bank were seven millions and a half; on the* 15*th they were eleven millions and a half; on the* 22*nd, the next week, they were fourteen millions and a half; and on the* 29*th they were fifteen millions. The number of bills discounted in one day were* 4200.

"584. Can you state how low the amount of commercial discounts was before it rose to that emergency? — On the 3rd of November they were 5,000,000*l.*

"585. So that they rose from 5,000,000*l.* to 15,000,000*l.*? — Yes.

"596. Did not the Bank in 1825 and 1826 run considerable risks with regard to the securities they took, looking rather to the relief of the money market, than examining very closely into the securities they received? — From the magnitude of the advance some considerable risk must necessarily have been incurred, but I cannot state what the actual loss was.

"597. Do you believe that it runs a risk greater than was likely to have been undertaken by private individuals in discounting? — *Certainly; inasmuch as advances were made upon the simple deposit of title-deeds, without having the power of examining them, relying upon the credit of the parties to whom the property was stated to belong.*"

The effect of this seasonable aid was soon felt in the removal of the more urgent symptoms of the distress and discredit, which were, at that time, felt chiefly among the bankers, both in town and country, and which entailed such enormous sacrifices as we have seen in the sales of Government stocks and exchequer bills.

The vast extent of accommodation thus afforded by the Bank, accompanied with an additional increase to its circulation of more than eight mil-

lions*, had not only no depressing effect on the foreign exchanges, but was attended with a great rise of them.†

While, however, this intervention of the Bank of England was so effectual for its object of filling the chasm in the circulating medium caused by so extensive a failure of credit, it did not operate as a preventive of mercantile failures. These were numerous and extensive in January 1826, and continued into February. Urgent applications were made to Government to relieve the mercantile distress by loans of Exchequer Bills. This they steadily refused to do. But as some compensation for their refusal, they induced the Bank, with considerable difficulty, to consent to make advances, to the extent of three millions, on goods in warehouses at Manchester, Glasgow, and some other considerable towns. The amount, however, advanced in this way was less than 400,000*l*. (See Appendix to Bank Charter Report, p. 43.)

I have been induced to dwell, at some length, on the circumstances attending the great monetary derangement of 1825, not only because a comparison between that period and 1847 is frequently

* Dec. 3rd	£17,477,290
„ 10th	18,037,960
„ 17th	23,942,810
„ 24th	25,611,800
„ 31st	25,709,410

† The following were the exact quotations: —

Dates.	Hamburgh.		Lisbon.	Paris. 3 days, at	
1825.					
Nov. 29.	37	1	0	25	25
Dec. 13.	37	9	50½	25	40
„ 20.	38	1	50	25	50
1826.					
Feb. 21.	37	10	51	25	70
March 28.	38	10	51	25	80

The sudden improvement of the Exchange in December is fully accounted for by the difficulty of negotiating bills at almost any price. The same thing occurred, but in a more marked degree, in October, 1847.

drawn, but because it affords me an opportunity of observing, that I am ready to confess that in the view which I took, in some former publications of mine, of the conduct of the Bank on that occasion, I hardly did justice to it. I admitted, indeed, that it was successful. That of course, could not be denied. But I expressed myself with hesitation as to its wisdom, considering it to have been empirical, hazardous, of doubtful precedent, and justified only by the event. Looking back to the period, now twenty-two years ago, when I first commented upon that measure, in a rather disparaging tone, and to a more recent period, now more than ten years since, when I had again occasion to remark upon it, less disparagingly, but not fully approving, I consider myself entitled to plead the lapse of time, and the experience derived in the interval, as my justification for the more unqualified approbation which I now give to it. And if I had been more doubtful than I was, down to the year 1847, of the soundness of the grounds on which the Bank had proceeded in December 1825, the events of October last would have been sufficient to remove from my mind whatever doubts I might, till then, have retained.

At the time the measure was adopted, it might fairly be said to be empirical, because there had been no experience that could be considered as being in point; and it was in contravention of the sound general principle of banking which prescribes a reduction of advances and discounts, in other words a contraction of liabilities, as the means of meeting increased demands for cash, by depositors or note holders. But when the experience of 1825 was found to have answered completely the exigencies of the case, and to have borne out so fully the reasoning of Mr. Henry Thornton, who had argued, both in his evidence before the Select Committee in 1797, and in his Treatise pub-

blished in 1802, that if the Directors of the Bank had extended their accommodation at the close of 1796, instead of contracting it as they did, the drain would have abated, and the suspension been averted; a principle might be considered as established, which, under analogous circumstances, should be admitted as modifying or superseding the more general rule. Mr. Thornton's argument, and the precedent of 1825, of course proceed upon the assumption that the foreign exchanges happen to be such as to preclude a demand for export of gold; and that there exists a state of general discredit from which the Bank of England is wholly exempt; thus distinguishing an internal demand for Bank of England notes or gold from an external demand for gold only.

If the Bank Directors in 1825, having committed the errors which led to the too great reduction of their treasure by the foreign drain, down to the autumn of that year, had, when the foreign demand for gold was found to be at an end, and when it had become manifest that the demand for gold was for the purpose of meeting the effects of discredit of the country banks, determined to extend their accommodation two or three weeks earlier, it is not improbable that the severity of the subsequent pressure might have been materially mitigated.

In the case, in many respects parallel, of October 1847, the indication was, if possible, still more clear, in favour of extended accommodation by the Bank of England, more especially as having in its vaults upwards of eight millions of bullion. There was no external demand for gold. The exchanges had, for some time, been so favourable, that the Bank had been enabled to buy, since April, about two millions of gold, which had all been withdrawn from it for purposes of internal circulation. But the gold was not wanted in exchange for Bank of England notes: These

were equally in demand to supply the vacuum caused by the discredit, greater or less, of all other paper. But precisely in proportion as the demand for its notes proved that its intervention was necessary, the restrictive operation of the act of 1844 diminished the power of the Bank to supply the deficiency of the circulating medium. If the Bank, *at the beginning of October*, when the legitimate and pressing wants of the internal circulation became manifest, had extended its accommodation (as but for that act it probably would have done), there can be no doubt that, with an increased circulation of its notes, it would have had an accession to its treasure. And great, indeed, would have been the mitigation of the suffering which prevailed through the whole of October, had the Bank been in its former position, and consequently, with such an amount of treasure, enabled to grant the utmost assistance that the nature of the case required.

SECTION 19.—*On the Defence of the Act of* 1844, *by Sir R. Peel, in his Speech of the 3d of December*, 1847.

Having passed under review the working of the act of 1844, and having stated the grounds on which I consider it to have operated injuriously, in favouring an undue extension of credit during the first two years after its enactment, and in greatly aggravating the causes of the monetary pressure, and the collapse of credit which have so disastrously characterised the year 1847, I deem it right to lay before my readers Sir Robert Peel's vindication of his part in originating that measure, and his view of its effects, now that the cycle of events is so far

completed as to throw the full light of experience upon its operation. I shall, with this view, give extracts of so much of his speech of the 3d of December last (as reported in the *Times*) as related to these points, with my remarks upon them.

The considerations which led Sir Robert Peel to propose to Parliament, in 1844, the measure which he so triumphantly carried, are thus stated by him:—

"I now come to the Act of 1844, and to the doctrines held by the right honourable gentleman who most ably presided over the committee which then inquired into and reported to the House on the subject which now engages our attention. The Bank Charter was then about to expire; some proposition it was necessary to make as to the renewal of that charter, and it was then perfectly competent to us to relieve ourselves from any direct responsibility respecting that and the other measures which were then necessary for the regulation of the currency. I need scarcely remind the House, that in the year 1844 it became necessary to propose to Parliament a specific measure, and I now want to call the attention of the House to this, that in the five preceding years five committees sat for the purpose of investigating this subject, of collecting information and reporting their opinions thereupon to the House. Those committees sat in 1836, in 1837, in 1838, in 1840, and in 1841; still, notwithstanding their minute and protracted inquiries, I have heard it said that the subject has not been exhausted, and that the measure of 1844 was not based upon a sufficient inquiry. Yet antecedent to the measure of 1844 there was an amount of inquiry on the subjects of currency and banking which it is difficult to look at without surprise. I find that by the first of these committees as many as 3000 questions were put; thus we have in the year 1836, 3000 questions and 3000 answers; in the next year, 1837, the committee which then sat, put 4570 questions and received as many answers; but that did not seem to be sufficient, for we have in the year 1838 a further supply of questions and answers to the extent of 1700 of each, and yet with no practical result from those apparently endless investigations; then, in the year 1840, as the period at which the Bank Charter must expire drew near, a committee was appointed, over which the right honourable gentleman the Chancellor of the Exchequer presided with great ability. In 1840 the committee, as I have said, to consider the subject of banks of issue was re-appointed, and up to that time as many as 9000 questions were put, and then in 1841 we had 3859 questions, to each of which long and reasoning answers were received, and which at length reached a total of not less than 14,000 questions, and at

that time we had the labours of another committee closing without any practical amendment having been effected or proposed. It might then at all events have been expected that the theory of this subject would have been clearly established. The committees had examined Mr. Tooke, Mr. Jones Loyd, Mr. Horsley Palmer, and Mr. Page.

"It was then decided to apply to Her Majesty's servants to submit to Parliament measures for the regulation of the currency and for the renewal of the Bank Charter: they invited the House of Commons to come to some practical decision on the subject, and I must be allowed to say, with respect to the measures then proposed to Parliament, there was not within my recollection any question of importance carried by a larger majority — on no occasion did more than thirty oppose the progress of that measure, and in the House of Lords it was carried unanimously. I, therefore, affirm that the House of Commons — after the means of information placed within its reach — after looking at the control which it might have exercised — cannot now say, that for light and inconsiderable reasons it was induced to give its consent to the bill which the advisers of the Crown then thought it their duty to introduce."

The remark that most naturally occurs on this statement is suggested by the obvious disposition of the speaker *to dress up the case.* The chief purpose is evidently to show that the course of proceeding which had been usual when any legislative measure was to be proposed affecting the Bank of England and the banking institutions of the country—that of first seeking the aid of a Committee of Inquiry, appointed with special reference to the object in view — was, in this instance, superfluous.

There is a very elaborate statement of the number of years in which committees on banking sat, and of the number of questions asked, and the long answers received by them. But as to the committees of 1836, 1837, and 1838, they were appointed solely to inquire into the *joint stock* banking system, and their proceedings have scarcely any reference to the general subject. They undoubtedly elicited a great deal of valuable information on that branch of the subject to which their attention was particularly directed; but I am not aware

that they either sought, or obtained, any as to the propriety or expediency of a measure calculated to affect the paramount interests involved in the great change introduced by the bill of 1844, or that any thing they did, or failed to do, affords any valid excuse for the introduction of such a measure, without a previous inquiry by a committee, not only into the working of the existing system, but into the probable operation of that which was to supersede it.

The Committee of 1840 and 1841 was appointed simply "to inquire into the effects produced on the circulation by the various banking establishments issuing notes payable on demand." The grounds assigned for its appointment were, the allegations contained in a petition from the *Manchester Chamber of Commerce*, relating to the state of the currency. Nothing could well be more vague than the object here proposed for the inquiries of the Committee, and seeing the vagueness of the object, and the mode in which the inquiry was conducted, it is not to be wondered at that the results were unsatisfactory.

A great part of the time and attention of the Committee in 1840 were taken up with examinations as to mere verbal definitions and distinctions, and their supposed consequences A more tiresome exhibition of mere logomachy cannot easily be imagined; and I will venture to say it cannot be equalled in the instance of any other parliamentary inquiry. The committee became a mere arena for conflicting theories, based chiefly upon arbitrary verbal distinctions; such, for instance, as whether deposits, payable on demand, were, or were not, money, or whether they were, or were not, capable of performing the functions, and of thus superseding the use, of metallic money; or whether, if they possessed the properties of money, it was not *in an inferior degree*. Mr. Hume was intent on showing

the error of the currency theory on this point, and some days were occupied in disputation upon it. In my examination* a great deal of time, and a multitude of questions, were expended in repeated efforts by the members of the committee, professing the creed of the currency principle, to obtain from me an admission that it was upon the circulation, and not upon the securities, that the Bank ought to act in its endeavours to counteract a drain; and whatever may be the merits of my answers, the event proves that they made not the slightest impression on those who used so much time and pains in obtaining them. It is a striking circumstance, that the committee of 1840 elicited hardly any facts, or any information of value, on the practice of banking, either in the metropolis, or in the provinces. And it may be observed, incidentally, of the avowed adherents of the currency theory, that their views, whether enunciated in their evidence before this committee, or in their writings, or in their speeches in parliament, betray an extraordinary paucity of illustration by reference to facts, or to occurrences in the actual course of banking or mercantile business.

The examinations in 1841, although not occupying half the time, or marked by half the number of questions, or length of answers, distinguishing those of 1840, are pregnant with useful information. But it seems to have been thrown away upon Sir Robert Peel. The only quotations he made from that evidence were those in which the country bankers stated that they did not, and could not, regulate their issues, that is, their notes in circulation, by the foreign exchanges; which might have led him to the inference that neither could any regulation by government make them so conform. And the opinion which he gave in his expository speeches

* See extracts from my evidence in the Appendix.

in May 1844, of the influence of the competition of issue among the country bankers in raising prices, is directly opposed to the whole of that evidence. Sir Robert Peel says of this committee of 1840 and 1841, that having reached the extent of 14,000 questions, it *closed* "without any practical amendment having been effected or proposed." But he does not say *why it so closed.* The fact was that the labours of the committee were terminated abruptly by the dissolution of parliament, in June 1841, without their having had the opportunity of discussing, and concluding upon, the terms of a report founded upon the evidence they had received. The committee, upon its functions being thus abruptly and prematurely abridged, made the following brief report, under date of 15th June, 1841 :—

"With respect to the great questions involved in their inquiry, they feel that before the probable period of the *termination of this session of Parliament it will be impossible for them to give that consideration* to the many and important points suggested in the evidence already before them *which would enable them to report any well-grounded opinion to the House.* They are aware that some disappointment may be caused by the circumstance of no final report being made after so protracted an inquiry; *but on points of such importance to the whole country, and involving so many and such complicated interests, they cannot allow this feeling to weigh against the necessity of due caution, and the fullest deliberation in arriving at any conclusion.*

"It will be for the House in the next session to determine whether *any committee shall be appointed, to whom the evidence taken in this and the last session of Parliament shall be referred* for the purpose of framing a report either on that evidence *or after such further examination of witnesses as they may think necessary; but in existing circumstances* your committee consider that the only course which they can pursue, is to report the evidence which they have taken without further observation to the House."

Hence it appears that it rested with Sir Robert Peel on his coming into power—he having it in contemplation to propose an important legislative measure upon the very subject the consideration

of which had thus been left incomplete—to re-appoint such a committee, with instructions to take into consideration the evidence of 1840 and 1841, and upon that, and such other evidence as they might receive, to report their opinion of the existing system, and of any improvements of which it might be susceptible, by a separation of departments, or by any other means. Such a report, although it might have proved to be more or less dictated by the currency theory, seeing that the chairman had become a proselyte to that doctrine, could hardly have thrown overboard, (as Sir Robert Peel did,) every part of the evidence which in any way militated with it.

By these remarks, I mean only that the reasons assigned in the passage which I have quoted from the speech of Sir R. Peel do not bear out the objections stated in it to the usual course of proceeding, on the occasion in question. It is quite true, as Sir Robert Peel says, and as I had occasion to observe before his recent speech was delivered, that the measure was passed by a triumphant majority in the House of Commons, and unanimously in the House of Lords, and that, therefore, it is not competent to parliament to hold him accountable for any disappointment that may have been felt from the working of the measure. It is beyond question, that if any responsibility attaches, it is to the legislature which passed the measure, as it were, by acclamation. Viewing it then simply as an act of the defunct parliament, I am entitled to express myself freely upon it, and I therefore venture to say that it is, in my opinion, *one of the most wanton, ill-advised, pedantic, and rash* pieces of legislation that has ever come within my observation, upon a matter which I had taken some pains to make myself acquainted with.

In the following passage of his speech, Sir Robert Peel avows his disappointment in the failure

of one of the three purposes of the act of 1844, and throws the blame of its failure on the Bank Directors.

"There seems to have been some misapprehension as to the object contemplated by that Act: that which we contemplated was that its future effect would be to prevent the recurrence of those convulsions which had heretofore frequently taken place. It had previously been thought, and might afterwards have been expected, that the Bank of England would have taken precautions against the ill-regulated issue of its treasure, and, therefore, the bill contained no imperative regulation affecting the banking department. We did hope that after the panic of 1826, after that of 1836, after that also of 1839, we did hope that the Bank of England would have confined itself to those principles of banking which their own directors admitted to be just, but from which they had admitted their own departure, though prescribed in part by their own regulations. In that hope I am bound to acknowledge that we have been disappointed. Seeing commercial difficulty coming, seeing the approach of a panic, they still did not conform to those regulations; commercial houses were swept away which had long been insolvent; other houses, which under different circumstances might have proved perfectly solvent, suffered from the failures of those whose inability to meet the demands against them was previously well known. The Bill has not sufficed to prevent these results, and so far, also, I admit that we have been disappointed; for the bill was intended to impose, if not a legal, at least a moral restraint on the Bank, and we hoped that it would prevent the necessity of having recourse to measures of extreme stringency. In that hope, likewise, I admit that we have been disappointed; for this I must contend, that it was in the power of the Bank, had it taken early precautions, if not to prevent all the evils that have arisen, at least greatly to diminish their force. If the Bank had possessed the resolution to meet the difficulty of a contraction of its issues by raising the rate of discount, by refusing much of the accommodation which they granted between the years 1844 and 1846 — if they had only been firm and persevering in those precautions, the necessity for any extensive interference with their operations might have been prevented; it might not then have been necessary for the Government to authorise that violation of the provision, the sole end and object of which was to constrain the Bank of England and prevent a recurrence of the panics of 1836 and 1839. Here I think I may be permitted to refer to what I said on the second reading of the Bill of 1844: at the close of the speech which I then made I thus expressed my opinions:—

"'The ministers were not wild enough to suppose that this measure would prevent all undue speculation, or insure an

invariable paper currency; but there was a species of speculation dependent on an undue issue of paper which they hoped the measure would check. Speculation could not be prevented in a commercial community, but it might be aggravated by a species of paper credit within the control of Parliament; and though ministers did not aim at checking legitimate speculation — though they admitted they could not prevent illegitimate speculation — which was, perhaps, necessarily incident to mercantile enterprise, particularly in a country like this, — still they asked Parliament, by assenting to this measure, not to aggravate evils which it could not control, nor refuse to check those which came properly within its jurisdiction.' "

Upon this avowal of the failure of the act, in one of its professed objects, I have only to remark that there having been no reasonable ground for any one, not misled by the currency theory, to entertain the expectation that any of the provisions of the bill would secure that object, it ought not to be matter of surprise or disappointment that it has failed. But the attempt by Sir Robert Peel, who held out that expectation, to transfer the blame of the disappointment from his own Bill to the Bank Directors has, indeed, excited my suprise, and is, perhaps, calculated to excite a still stronger feeling on the part of the public; at least among that part of it which takes an interest in the present subject, and is not bigoted in its adherence to what is called the principle of the act of 1844.

Sir Robert Peel is, of all persons whatever, the one least entitled to condemn the Bank Directors for the course they pursued between 1844 and 1846.

I have already, some pages back, (*antè*, page 296.) which were written before the debate of the 3d of December, noticed the satisfaction expressed by Sir R. Peel, in 1845, at the state of things then existing, and especially at what he then considered the favourable working of the Act of 1844; and there I observed upon the impossibility of his being otherwise than well informed, not only at that time, but down to the summer of 1846, of all the

proceedings of the Bank. Now surely, interested as he was, in every point of view, in having the act properly administered, it was to be expected that he would warn the governors, if he thought that they were keeping the rate of interest too low, or in any other manner contravening the admitted "principles of banking."

But, in truth, as I have before had occasion to observe, until the flagrant failure of the Act became manifest, nothing ever fell from its authors or partisans, indicative of their attaching any blame whatever to the conduct of the Bank Directors; either as to the rates of interest or discount charged by them, down to the close of 1846, or as to any other portion of their management.* And I have

* The following extracts from the City article of *The Times* of the 31st of December, 1846, afford a fair specimen of the tone held by the supporters of the Act, even after the setting in of the drain which ultimately brought about its suspension:—

"From the remarks which have been made every Thursday during the past few months, it might be imagined that our monetary system had of late years undergone no change, and that the regulation of the currency still rested with the Bank of England. Upon the breaking up of each court the question if the rate of interest has been raised is asked with no less anxiety than formerly, and the funds are affected, and speculators become bold or timid, according to the answer. Opinions also abound as to what would be the proper 'policy' for the Bank to pursue as varied and conflicting as those which used to prevail before the Act of 1844. Everything, in short, tends to show that the public, who when the Bank possessed the power of controlling the currency never ceased to clamour for its removal and to complain of the want of a fixed principle, prefer, now that the removal has been effected, to recognise that establishment as their guide, instead of watching the principle which has been set up, and which is daily in unmistakeable operation before their eyes.

"In this state of things it may be well to call attention to the fact that the Bank can now exercise no influence over the value of money, save such as, in their degree, may be exercised by all other capitalists. If the current rate be 3 per cent., a resolution of the Court of Directors declaring that it shall be 3½ or 4 could have no effect in fixing it at that point. The only result would be that those who now go for discounts to the

already shown how little aware, even the present Chancellor of the Exchequer was, of the impending pressure, till the end of March 1847.

It is now, for the first time, that we hear of "the *ill-regulated issue of its treasure by the Bank;*" and though perfectly new, it is any thing but a clear description of what appears to be meant. The only

Bank would then take their bills into the market; and the Bank, instead of letting out their funds in the usual way, would have to seek other channels, or would find them disappear by a reduction in their deposits. It will easily be seen that such a course is not likely to be adopted by *a body whose only duty is to make as much as they can of the commodity in which they deal.* * * *

"One great cause of the prevailing misconception is in *the fancy that the Bank still have duties to perform by 'acting on the circulation.' But they have no duties of the kind. Their only responsibilities are such as they share in common with their brother traders throughout the kingdom,* and Messrs. Jones Loyd, or Glyn, or any other bankers, might as well deem themselves called upon to attempt an interference with the natural movements of money as the Bank of England. *All that any of these parties have to do is to take care of their own interests, and to leave the currency, under Sir Robert Peel's Act, to take care of itself.* * * *

"The Bank lives by lending, and it is its business at all times to be satisfied with the market rate, and to look to nothing but good security. Anything beyond this would be to attempt to meddle with processes which it has been the great success of modern statesmanship to place beyond its power of interference.

"Taking this view, it will be expedient, when parties assert that the Bank of England should have raised the rate of interest at such a time; or lowered it at another, to ask why, when they could only get 3 per cent. for their commodity, they should have insisted upon having 4; and also the grounds on which, when they could get 4, they should refuse it, and content themselves with 3. These would be speculative rather than sound business proceedings, and it would be interesting to learn the principles on which they could be defended.

"Meanwhile, the advice, look to the foreign exchanges and to the course of trade, cannot be too often reiterated. The Bank, with a lingering dream of their old power, may still announce their rates to the world as matters of importance; but the announcement cannot alter the real state of things, and those who look to it and watch for it as a great sign will inevitably find that they have been wasting their time, and that shrewder observers have outstripped them."

function of the Bank which had ever before been regarded by the currency theorists as of any importance to the public, was that of regulating *the amount of the circulation.* It may be seen in the questions put to me by those who were on the committee in 1840, how strongly prepossessed they were with the idea that it was by operating upon the *circulation* alone, that the directors could, or ought to, influence the exchanges. It was upon this ground that they maintained, that if the circulation were duly regulated by the issue department, the public could not suffer from any want of judgment in the regulation of the banking department. Proofs that their opinions were precisely to this effect might be collected from their evidence, and subsequently from their speeches and their pamphlets, so as to fill a volume. Upon this topic, however, though tempting, I cannot now afford time or space to dilate; and shall only add that I consider the charges brought against the Bank by Sir R. Peel to be most unfair, and the reasoning by which it is attempted to support those charges, extremely inconsistent, and wholly inconclusive.

After thus avowing that one of the objects of the bill which, at the time it was brought forward, was dwelt upon as of the greatest importance, had entirely failed, Sir Robert Peel proceeded to observe,—

"I say then that the Bill of 1844 had a triple object. Its first object was that in which I admit it has proved a failure, namely, to prevent a panic and a confusion such as that which has been obviated by the intervention of the Government; but there were two other objects of as great importance; *the one being to maintain and guarantee the convertibility of a paper currency into gold,* and *the other to prevent the aggravation of those difficulties which arise at all times from undue speculation, encouraged by an abuse of paper credit. In these two objects* my belief is that *the Bill has completely succeeded.* (Hear.) My belief is that you have had a guarantee for the maintenance of the principle of convertibility such as you never had before; and my belief also is, *that whatever difficulties you are now*

***suffering from a combination of various causes, those difficulties would have been infinitely aggravated if you had not wisely taken the precaution of checking the abuse of paper credit by an unlimited issue of the notes of joint-stock banks and private banks, such as the abuse which existed antecedent to the year* 1844.**"

Two of the objects of the bill are here affirmed to have *completely succeeded:*—the one being to maintain and guarantee the convertibility of a paper currency into gold, the other to prevent the aggravation of those difficulties which arise from undue speculation, and the abuse of paper credit; and the speaker goes on to say, that if it had not been for the restriction of the bill on the issue of notes, the difficulties which have arisen would have been *infinitely aggravated.*

With regard to the second of the two objects, the affirmation is entirely unsustained by proof. On the contrary, as all the subsequent declamatory statements of the speaker tend to show, there was, at the period referred to, an extent of speculation, and an abuse of credit, such as it would require an almost inconceivable stretch of the imagination to suppose exceeded. And I have, in the preceding pages, adduced reasons for believing that the bill, according to the exposition of the spirit of it by Sir Robert Peel, led to increased facilities of banking accommodation, and thus favoured, instead of checking, the spirit of speculation already afloat. As to the assertion that the difficulties which have arisen would have been infinitely aggravated but for the Act, it is so astounding—so much the very reverse of the inference which reasoning *à priori on the tendency* of the bill under such circumstances, would lead to, and of *the evidence which experience and observation afford of its actual operation*, that I must decline to meet it otherwise than by referring to the description which I have given of the state of things in April and October last. I confess that I shall be infinitely surprised if, in the inquiry

by the present committees, there can be obtained any thing approaching to a confirmation of Sir Robert Peel's views on this point.

I must here, however, guard myself against misconstruction. In as far as the provisions of the act of 1844 may be found to afford greater security against the insolvency of banks, whether issuing or non-issuing, they have my approbation. The provisions of it to which I specifically object, (besides those which divide the Bank of England into two departments,) are those that *limit the amount of Bank notes* which shall be in the hands of the public. The grounds assigned for such limitation of amount are, in my opinion, entirely unsound in principle, and the operation of the restriction has been, as I believe, productive of great inconvenience, both to bankers and to the public, without in the slightest degree adding to the security of the banks.

But waving further discussion of this part of Sir Robert Peel's defence of his bill, I shall proceed to remark upon his allegation of the success of the first, and only remaining object, out of the three which he had contemplated in the framing of it. It seems, in fact, to be the only one now relied upon by the partisans of the bill; the other two having been gradually given up. I now never hear any other answer, when they are asked what they think of the operation of the Act, than that it is calculated to prevent the suspension of cash payments. Some, indeed, go so far as to add that, but for the Act, the Bank treasure would have been exhausted, and cash payments suspended in the course of 1847!

With regard then to the allegation by Sir Robert Peel, that the Act of 1844 has afforded a better guarantee for the maintenance of the principle of convertibility than we ever before had, I have to observe, that as it is unsupported, either by reason-

ing or by facts, the opponents of the measure would be perfectly justified in meeting it, simply by a counter assertion, which cannot be better expressed than in the powerful language of the writer of the article in the *Quarterly Review* for June 1847.

"By no contrivance could the great purposes of that Bill (of 1819) be so effectually brought into discredit, or the permanence of the measure itself so seriously endangered as by identifying it in any way with the Bill of 1844."—(P. 273.)

It is my sincere belief that the principle of convertibility is seriously endangered by the act of 1844. The opponents of that principle have unquestionably gained ground in numbers, and in plausibility of argument, by being enabled to refer to the two tremendous shocks which the commerce and industry of the country have sustained by the endeavour, as they contend, (by the act of 1819, as well as that of 1844,) to maintain a system which involves, and necessarily entails, the liability to such convulsions. Now I hold that neither of those shocks would, in all probability, have occurred, but for the restrictions imposed by the act of 1844.

My reasons for this opinion may be collected from what I have already had occasion to say on the working of that Act; and I shall presently endeavour to show, particularly, how, if the Bank had not been divided into two departments, those shocks might have been avoided.

In the mean time, let us revert to the assertion of our having a better guarantee than we ever before had for the maintenance of the principle of convertibility; meaning, of course, specifically, the convertibility of Bank notes into coin on demand. I will grant, for argument sake, that the guarantee afforded by the Act is sufficient; (which I deny it to be under all circumstances,) but it can only be so on the supposition that the separation of de-

partments should be considered inviolable. So it was evidently intended to be; for it will be recollected that Sir Charles Wood, in his speech, stated how much alarmed he had been at an intimation that a power of relaxation was to be confided to the government.* Supposing *perfect inflexibility* in

* Any admission of flexibility on the part of the new law would have been fatal to the vaunted principle of it. And so far Sir Charles Wood was right when he expressed alarm about the introduction into the Bill of an *expansive clause*, as it was called. It was to be either flexible by an expansive clause, or strictly inflexible. If flexible, it was only having a political governor set over the Governors of the Bank. And in this there would be a liability to the same fallibility of judgment as was complained of under the former system, with the disadvantage that the establishment would be so much the more subservient to the purposes of the administration.

If inflexible, the payment of the depositors in the Bank, including the dividends on the public funds and deposits in the savings' banks, might readily be compromised under circumstances such as we have been very near witnessing.

A certain degree of misgiving on this dilemma seems to have come across the mind of Mr. Loyd. Accordingly, on the supposition of a contingency, in his view *barely possible*, (that under the operation of the self-adjusting principle applied to the circulation a case of danger may arise,) he contends that the emergency should be met by the interposition of Parliament, but not by anything short of it.

In support of his view of the propriety of such an interposition under the supposed circumstances, he quotes a passage from Mr. Huskisson, who, when referring (in 1810) to the possibility of such a combination of circumstances (when the restriction should be removed) as to drive the Bank to part with its last guinea, not only without having checked the drain, but, with the certainty of increasing it in proportion as the amount of their notes was diminished, said, "At such a moment the preservation of the Bank from actual failure, though an important, is but a secondary consideration, — that of the country is the first. The possible cases, however, which may call for such an intervention of power, are not capable of being foreseen or defined by law. The necessity may not occur again: if it should, the application of the remedy must be left to those at the head of affairs, subject to their own responsibility, and to the judgment of Parliament."

It is clear from this passage that Mr. Huskisson had in view the possible occurrence of such an extraordinary combination of

the law, such as the currency theory clearly contemplated, then I think it is demonstrable that cases might occur, within reasonable probability, entailing the suspension of payment by the deposit department of the Bank of England. Nor is it clear that such might not have been the case recently; indeed it is rather probable that it would have been, had not the government letter of the 25th of October been issued.

Has it ever occurred to Sir R. Peel or Sir C. Wood to consider whether a suspension of payment by the Bank of England of its deposits, including the dividends due to the public, would be attended with less of inconvenience, or with less of national discredit and disgrace, than a suspension of payment of Bank notes in coin on demand? I am convinced that it would be attended with very much *more* of inconvenience and national discredit; and I think that the onus of showing that it would not, rests upon those whose favourite measure obviously renders it the more imminent danger of the two.

As regards the public convenience, or the national faith, there is no apparent ground for the preference of *an exclusive guarantee for the notes. They are not, nor ought they to be, as the dividends are, a debt of the state.* During the Bank restriction they were, I believe, distinctly under the guarantee of the state; but it was upon the special ground that the restriction was imposed for state

circumstances as might again place the Bank of England under the necessity of suspending its payments in coin. But I am convinced that if Mr. Huskisson had lived to contemplate the scheme of 1844 he would have revolted from the idea of the possible necessity under that scheme of resorting to such interposition, and would have considered such a contingency as being of itself an insurmountable objection to it. He would hardly have failed to apply the rule of Horace, —

"Nec Deus intersit, nisi dignus vindice nodus."

purposes. Upon what principle is it, then, that, with so much inconvenience, we secure the notes, while we leave the dividends without any security, or with one which is plainly assumed to be inferior in value ?

There is the same mistake in the assumption of a necessity for this exclusive guarantee of the notes, as pervades the whole of the reasoning of the currency party. They confound notes, such as those of the Bank of England, with Government notes.

The notes of the Bank of England are, independently of other points of dissimilarity, so far unlike Government notes, that if any demur or delay, from inability to meet the demands of the holders, should occur, the law can at once be appealed to and enforced against the corporation; which it could not be against a government, in the ordinary sense of a government paper money. The law in this country, unlike the law in the United States, may be enforced against that as against any other corporation; or as the law is enforced against other banks. The only difference is in the magnitude of the transactions of the Bank of England. But this magnitude, it may be said, makes a great difference. Granted. I am not disposed to underrate that difference. But it does not justify Sir Robert Peel, and Sir C. Wood, and the supporters of the act of 1844 generally, in having made such a bugbear of the possibility of a suspension of cash payments by the Bank of England, as to "fright the isle from its propriety." And as the risk of encountering that catastrophe is now apparently the only remaining ground put forth for the maintenance of the Act, it may be desirable to reduce the apparently giant evil to its proper shape and dimensions.

The great terror prevailing at the mention of it, seems to have had its rise in the expression of Mr. Huskisson, that in December 1825, we

were within twenty-four hours of a state of barter: meaning, of course, that a suspension of cash payments by the Bank of England would have brought us to that state. At the time when the expression was used, hyperbolical as it appeared to me, I had no objection to it, because it was desirable to impress upon the directors of the Bank, and upon those who were in favour of a lax management, a salutary apprehension of the consequences of it. But as the exaggerated apprehension of those consequences has now become the main ground relied upon for reconciling parliament and the public to the quackery of a new, unnecessary, and mischievous measure—one, certainly, never contemplated by Mr. Huskisson,—it is right to inquire what this "state of barter" amounts to.

I will venture to assure such of my readers as may have been so frightened by the expression as to be induced to acquiesce in the act of 1844, as a guarantee against the possible occurrence of a state of barter, that they need not apprehend any thing of the kind in the event of a suspension of cash payments. There would not, without the act of 1844, have been, in 1847, any reasonable ground of apprehension of such a suspension. But supposing that such an event (which I deprecate as much as the most zealous of the currency theorists) had occurred, what would have been the ensuing state of things, as regarded the general transactions of the country? Why, there would not have been a single transaction more in the way of barter than now occurs. There would have been no instance, more than now, of a load of wheat bartered against a horse or an ox; nor of silver spoons bartered for millinery or groceries.

There is a most apt precedent for the course things would take. Government and parliament would interfere, somewhat as the Court of Bankruptcy now does, to protect the defaulting persons,

namely, the Directors, till the state of their affairs could be looked into, and the causes of the failure of engagement ascertained; and the concern being, beyond all question solvent, to determine whether it should be wound up, and another bank or banks be established in its stead, or whether it should go on under some guarantee for more prudent management. In the mean time, the material fact of solvency being placed beyond all possibility of doubt, there would be meetings of merchants and bankers entering into resolutions expressive of their confidence, in some such terms as those used in 1797.

And the consequence would be, now as it was then, that there would be no single instance of a shopkeeper refusing a 5*l.* Bank of England note, either for goods to that amount, or to give change out of it. The example would be followed in the provinces, as to those banks which enjoyed the confidence of the neighbourhood; and the circulation would go on very much in its accustomed train.

There would, however, necessarily be a contraction of accommodation. This, if trade were in an unsound state, as it has recently been, would hasten, and, perhaps, extend the range of, commercial failures. Otherwise, for instance, under circumstances like those of 1839, little if any inconvenience of the kind would be felt. But the contraction of accommodation, or in other words, the scarcity of lendable capital, would soon bring it in from abroad, in the only available form, that of gold, — as was the case in 1825–26, in 1836,–37, and in 1839. And it may be assumed, as a certainty, that if the law of 1819 should remain unrepealed and unrelaxed, as I hope and trust it will, there would be a very short interval, if any, in which the paper would be depreciated in value, that is, by a further fall of the exchanges or rise in the price of gold. Under such circumstances it could not be said that

the principle of convertibility would be compromised. The sole difficulty would be one of friction in the operation, from the vast magnitude of the subject involved. No one would be more grieved than myself that the principle should be so sorely tried, but I am convinced that it would come out of the trial with much less damage than is generally apprehended.

But whether the extreme alarm felt (or at least expressed) by the currency theorists, at the idea of a suspension of cash payments, and the consequent sacrifice of the principle of convertibility, or my more moderate estimate of the consequences of such an event, be the more rational, I am quite convinced that there would not have been in 1847 any real danger of suspension without the mischievous aid of the act of 1844.

SECTION 20.—*On the Arguments advanced to prove that the Act of* 1844 *has already averted or diminished the risk of a Suspension of Cash Payments.*

It is for those who maintain the affirmative of the danger of a suspension of cash payments, in the absence of the restrictions imposed by the act of 1844, and of the fatal consequences of the event, should it occur, to prove their grounds for such apprehension.

The only attempt to show that there would have been a suspension of cash payments had it not been for the act of 1844, which I have seen, from a quarter entitled to any attention, is in the speech of the Chancellor of the Exchequer,

in the debate of the 30th of November. From deference to the authority of one who holds so eminent a station, and whose opinions, on all other grounds, claim the most respectful consideration, I should have been induced to notice Sir C. Wood's argument at some length, were it not that I have already devoted as much time and space to this topic as I can well afford. Indeed, to do justice to the objections to which I consider his views to be open, I should have to write as much as would be equivalent to a moderate-sized pamphlet, there being hardly a point, in the whole of his argument, in favour of the bill, which it is not my misfortune to see reason to dissent from.

Two points, however, I cannot resist noticing.

After describing the inevitable tendency of the drain on the Bank in April to have proceeded indefinitely, had it not been checked by the violent measures of the Bank in April, Sir C. Wood asks—

> "If the drain of bullion had gone on, if the amount in the coffers of the Bank had been diminished, as has been the case heretofore, to two or three millions, the publications of the state of the Bank, stating accurately the facts, week by week *, does any body suppose that under those circumstances the alarm would not have taken the course of a run upon the Bank of England for gold?"

In answer to this question, I cannot but express my surprise and regret at its having been asked. I should hardly otherwise have imagined that any ordinarily well-informed person could, for a moment, have supposed the possibility, much more the probability of a run upon the Bank of England for gold. The only meaning to be attached to the expression "a run for gold," is, that the holders of the notes entertain, or affect to entertain, doubts

* Under the former system, here supposed, there would *not have been* these weekly publications of the state of the Bank.

of the value of the notes, and therefore hasten to exchange them for gold, without having any specific use for the latter. Now such doubts, or in other words, such discredit of Bank of England notes cannot be said to have existed as a cause of *extensive* demand by the holders of its notes for coin since 1745; when, according to an amusing account by Mr. Francis, in his history of the Bank of England, the directors were obliged to resort to very ingenious, though not very creditable devices, to eke out their resources. In 1796–97, there was a great deal of political disaffection prevailing, and it might have been the policy of our enemy to promote it; but it does not appear that it entered much, if at all, into the demands upon the Bank at that time. The only clear instance for more than a century, of a "run" upon the Bank of England for gold, was in 1832; but that partook of the ridiculous; and has acquired importance only from the extraordinary use made of it by the partisans of the currency theory. In 1825, when it was notorious, without any publication of accounts, that the Bank had not the means of maintaining its payments in gold, if the demand should continue for a week, there is no well-authenticated instance of a holder of its notes requiring gold from distrust of the paper. Nor was any such distrust manifested when the bullion in the Bank in 1839 was reduced to 2,500,000*l.* No stronger proof of the weakness of an argument can well be imagined than the necessity, here so plainly implied, of aiding it with so miserable a make-weight—so utterly unfounded an apprehension as this.

The only other point which I have to notice in the speech of the Chancellor of the Exchequer is that of his remarking, as a triumphant argument in favour of the act of 1844, that it secured to the Bank a minimum treasure of eight millions. He

says, "we owe much to that eight millions," and asks, "to what are we indebted for the possession of that eight millions, but to the operation of the act of 1844?" I should hardly trust myself to give, in fitting terms, an answer to such a question, but I luckily find, ready to my hand, some remarks upon it in the current number of the *Quarterly Review*, which express truly, but in language more lively and effective than my own, all that I should wish to say with reference to the extraordinary claim thus set up by the Chancellor of the Exchequer in behalf of the act of 1844.

"Since the foregoing hints were penned, we have read the debate on the appointment of the Banking Committee. We are gratified to find in it in the aggregate clearer views than we have been used to in such parliamentary discussions. The defence of the Bill of 1844 was exactly what everybody anticipated. ''Tis true that the Bill did not prevent wild speculation and panic, though we said it would. We said there would be no more 1825's, but we never thought so, and you must not find fault with us; that was only allowable parliamentary exaggeration. This, however, we tell you, that but for the Bill of 1844 the speculation and the panic would have been a great deal worse than they have been.' As this defence requires neither knowledge nor talent, nor any qualities but a bold face and great confidence in the timidity and ignorance of your audience, we have nothing to say to it. *But one assumption was made by two or three speakers in the debate so extremely barefaced that we cannot wholly pass it by. It was assumed that but for the Bill of* 1844 *more than seven millions of gold would not have remained in the Bank of England during the worst of the pressure. The reason seven millions odd remained, was that there were sixteen millions odd to begin with, and that the export of nine millions sufficed to turn the exchanges.* About the same sum turned them in 1825, and a very much less sum on every other occasion. *Does any one suppose that if the Bank had begun with eight millions of gold, and the famine, and the Bill of* 1844, *that a single sovereign would have been left at the end of the pressure?* In 1797 we exported not only all the gold in the Bank of England, but every guinea out of our circulation to carry on a foreign war; and do you suppose that the men of 1847 would have let the two sides of their stomach grow together for want of food, because we had put some stupid quackery into an act of Parliament, and had divided the Bank into a banking department and into an issue department? We send gold

abroad when we want something for it, and we keep it at home when we don't, without in either case consulting the fancies of Sir William Clay or Sir Charles Wood. Now, we do not send abroad because we want nothing; we do not want food nor tea, nor sugar, nor coffee, nor indigo. Neither, it appears, do we owe money abroad, because people from all quarters are sending bullion to pay their debts to us."— (*Quarterly Review*, No. 163. Dec. 1847, p. 230.)

It seems quite certain that the original propounders of the currency theory never contemplated an amount of treasure in the Bank materially exceeding, if often reaching, nine or ten millions. Thus Mr. Norman, writing in 1838, when the stock of bullion in the Bank, after having, in the spring of 1837, been reduced to between three and four millions, had increased to about ten millions, observed, "It is probable that an increase will be found in the treasure of the Bank, between its lowest amount last spring, and the highest just previous to the next turn of the exchanges of from seven to eight millions. Now such an influx of treasure is quite unnatural, and could never occur with a metallic circulation." And Colonel Torrens in his illustration of the supposed working of the system he recommended, assumed nine millions as the amount of bullion that might be required in the two departments. Neither in Mr. Loyd's writings, nor in his evidence, do I recollect any thing indicative of an opinion that an amount of treasure larger than that which had been held by the Bank, on an average, between 1832 and 1839, would be at all necessary under the system which he advocated. Nor was any stress laid upon this point by Sir Robert Peel, or his supporters when the bill of 1844 was under discussion.

If it had so happened, that in the autumn of 1846, the bullion in the two departments had been nine instead of sixteen millions, there can hardly be the shadow of a doubt that the act of 1844 could not have survived the month of March

last, in its immaculate state; and any effort to maintain its restrictions would certainly have been attended with imminent danger, or rather the certainty, of a suspension of cash payments.

Having expressed my firm persuasion that, with an undivided power over the whole amount of bullion which the Bank possessed, at the commencement of the drain in the autumn of 1846, the directors might (and as I believe would) have so managed as, without producing such convulsions as those which were sustained in the course of 1847, perfectly to have preserved the convertibility of their notes,—I propose, in order to illustrate my view of what would probably have been the state of things throughout 1847, in an undivided position of the Bank, as contrasted with that which actually existed, to compare the course which Sir Robert Peel adopted in 1844, in his arrangements with the Governors of the Bank with that which I venture to think would have been the wiser and safer course for him to have taken.

It does not appear by the correspondence between the Chancellor of the Exchequer and the Governors respecting the separation of the Bank into two departments, with which of the parties the suggestion of having that separation established *by law* originated; but the presumption is that Sir Robert Peel first proposed it: that the governors cordially acquiesced in it is well known.

The directors of the Bank had, it seems, for some time previous to 1844 adopted, by way of experiment, the plan of a separation of the two departments, in the mode of keeping their accounts. Mr. Hubbard, one of the directors, in a pamphlet published in 1843, took occasion to illustrate some of his views by tabular statements of the position of the Bank on the footing of keeping a distinct reserve of bullion for all the notes issued beyond the fixed amount of fifteen millions, which was to

be distinctly considered as issued against securities. The directors had, it seems, of their own accord, substituted this mode of regulating their issues for that which they had been understood to be guided by, under the mode of management recommended by Mr. Palmer—namely, that of keeping their securities at a nearly even amount, and leaving the bullion to be acted upon by the public; but from which the committee of 1841 recommended them to consider themselves released. The governors, in their interview with Sir Robert Peel in 1844 gave, it is supposed, as the result of their experience of the working of this new guide for their issues, a favourable opinion of it; and concurring, as this did, with whatever other information he had received, and, with the principles of the currency theory (to which, as is evident from his speeches, he had become a proselyte), he determined, it would appear, to found the measure about to be laid before Parliament for the renewal of the Bank Charter on that plan, reducing the fixed amount of issues against securities to fourteen millions; and excluding the post bills.

The proposal of a novel measure, involving a great change, and affecting vast interests, without the sanction of the recommendation of a committee, strikes me to be a parallel case to one which might be imagined, in reference to a similar occasion in the past—as thus:—Suppose that, in 1832, Lord Althorp, having been greatly struck with Mr. Horsley Palmer's evidence and his exposition of the plan by which, while governor of the Bank, he had successfully regulated its issues, (namely, that of keeping the securities at a nearly uniform amount,) and, being so prepossessed with the scheme, had brought into Parliament, and succeeded in carrying, a bill founded upon it, what would have been said of the prudence of the proceeding, when the measure was found, as it would have been, to fail

within three or four years after its enactment, and to require legislative interference for its suspension or repeal? And was the proceeding of Sir Robert Peel very unlike this, or much less rash, in proposing and passing into a law, a scheme which the Bank directors had been induced, in pursuance of a plausible theory, to make trial of as a *mere experiment:* this experiment having been continued only for two or three years without any circumstance having occurred in that short interval likely to bring its efficacy to the test?

The course which I should have thought that so experienced and prudent a statesman would have adopted, (especially entertaining, as he did, the opinion that an enlarged basis of gold was necessary for our enormous superstructure of credit, in which opinion I entirely agree with him,) instead of risking such vast interests, on so novel a scheme, might have been something of this kind.

He would have apprized the governors of the Bank, when treating for the renewal of the charter, that the management had not been so prudently and vigilantly conducted as to avoid giving grounds of alarm to the government and the public for the safety and credit of the establishment, on more than one occasion since the renewal of the charter; that unfortunately they had professed, upon principle, not to exercise foresight in anticipating a drain, but to wait for its operation on their treasure*: that they had, accordingly, from want of exercising sufficient foresight in anticipating a drain, and from not taking effective measures for counteracting it when it had strongly set in, given just occasion for questioning the propriety of their management, — instancing the years 1835 and 1836, and also 1838 and 1839, in the last of which

* See Mr. Palmer's evidence, Bank Charter Report, 1832.

years they had suffered themselves to be reduced to the necessity of resorting to a very questionable expedient to save their treasure from complete exhaustion: that they had evidently attempted to conduct the vast business of their establishment upon too small a scale of reserve; thus placing themselves in the alternative, on the occurrence of a drain, of allowing it to proceed to a dangerous extent, or of abruptly contracting their usual scale of banking accommodation, and producing what, in the language of the money market, is called a panic: that in his view, therefore, the most important consideration in the question of the renewal of the charter, was to ascertain whether it was in the power of the governors and directors, and if so, whether they would undertake, on their responsibility, so to conduct the business of the company, as to retain habitually a much larger reserve than they had hitherto thought it necessary or consistent with the interests of their proprietors to maintain.

What the answer of the governors to such an appeal would have been, I do not, of course, take upon me to say. But with respect to the power of maintaining a much larger *average reserve* of bullion than had hitherto been thought necessary, Mr. Horsley Palmer had already given it as his opinion that there would be no difficulty on the part of the Bank, in regulating its business *on a larger basis of bullion*, and that it was mainly a question of expense.* I presume, therefore, that

* This is a most important point; and Mr. Palmer's opinion upon it is of the highest authority. I therefore give the following extracts from his evidence before the Committee of 1840:—

"1595. With the experience of the last few years, since the renewal of the Charter, and taking a review of the various circumstances which occurred at the time, can you now suggest any other course which it would be advisable for the Bank to pursue as to the principle of its management? — I know of no

the answer of the governors would have been to the same effect; and that the condition of the maintenance of a *much larger reserve of bullion* would have had to be considered in the general terms of the arrangement.*

other course which could be taken *beyond holding a larger amount of bullion*, but which I am not prepared to say the Bank could do without means being devised to remunerate that establishment for the expense and charges that would attend such a measure.

"1596. Do you think that the principle of management, as laid down in 1832, *with a larger proportion of bullion, and a smaller proportion of securities, with reference to their liabilities*, would be the best rule for the management of the Bank? — *With reference to the whole circulation of the country, I think it would.*

"1597. Under those circumstances, if notes were issued on securities, as in the summer of 1839, notwithstanding the drain of bullion, might not the currency even then be maintained in excess; — would this rule be any preservative against an excess of Bank notes? — It would be no preservative against events which require special action on the part of the Bank. *The increased amount of bullion would afford increased means for meeting foreign payments of such a character as existed in* 1839, *without the necessity of resorting to those means which were taken to supply the dificiency.*

"1598. *Would its operation be to preserve the convertibility of paper without resorting to means which it may not at all times be in the power of the Bank to take? — Certainly.*

"1599. Do you conceive that it would be always in the power of the Bank to take such measures as they did adopt in the summer of 1839 for the protection of their bullion? — *I think it would be very undesirable to resort to those measures except in extreme cases.*

"1622. *A larger proportion of bullion could not be kept without some diminution of the profits of the Bank of England?* — No.

"1623. *But supposing the Bank consent to that, you see no difficulty in their keeping such a reserve as to be a security against all ordinary danger? — No.*"

* The governors might probably have added, that although the condition of holding so large a reserve might be compensated in the general terms agreed upon on the renewal of the Charter, the Court of Directors would be placed in a disagreeable position; because the proprietors, seeing in the periodical returns so large an amount of bullion, would remonstrate and express displeasure at the unproductive state of so large a pro-

Supposing the governors, upon reference to and consultation with the Court of Directors, to have expressed their acquiescence in the practicability of maintaining an average reserve, larger by five or six millions than that which the Bank had possessed since the last renewal of the charter, and their consent (with the understanding that the additional expense should be a consideration in the arrangement) had been obtained, pledging their responsibility so to regulate their business as to accomplish, as far as possible, the object in view,—what would, in all probability, have been the course of management adopted, and what the probable state of monetary affairs, compared with that which has existed since the change of system in 1844?

It is of course not possible to show to demonstration what, under these circumstances, would have been, instead of what has been, the state of things. But as Sir Charles Wood undertook to prove how much *worse* the state of things *would have been* but for the act of 1844, I will endeavour to show how much *better* they might have been (by a very simple precaution, which it was quite open to the Government to take,) than they have proved to be under the complicated and hazardous machinery of that act.

As Sir Charles Wood has assumed, in his view, the advantage of the circumstances which existed in 1844, and from that time till the autumn of 1846, and which determined a large influx of the precious metals into this country (most assuredly *not caused by that measure*), I must claim the same advantage for my view.

portion of their assets. To this objection Sir Robert Peel might have replied, that if such was likely to be the case, the proprietors should be apprised that it would be a condition of the Charter that they should have no voice in the declaration of a dividend.

Assuming such to have been the state of things on the renewal of the Charter, and such as I have stated, the implied engagement entered into by the directors, and the responsibility thus thrown upon them, it is perfectly impossible to suppose for a moment that they would have ventured to take such a step as they did — that of reducing their rate of discount from 4 per cent. to 2½ per cent. — immediately upon the act of 1844 coming into operation. Nor is it at all likely that they would have thought it right or safe to reduce their public rate of discount at any part of the period in question below 4 per cent. And as to their quarterly advances, the same motives would have deterred them from reducing the terms below those which they had required before the passing of the act of 1844.

I am not disposed to exaggerate the influence of the reduction of its rates by the Bank between 1844 and 1847. Some influence it cannot but have had, as I have before observed, in facilitating the speculations which were then in progress. But, waiving the consideration of its influence in that way, it is to its influence, small though it may have been, upon the state of the Bank treasure, that I would now direct attention. In whatever degree the management of the Bank in 1844 may have tended to reduce or keep down the general rate of interest*, it must have favoured the efflux of capital for foreign investment, and consequently must have somewhat abated the tendency to influx, or to the maintenance of the then existing amount of bullion. I cannot, therefore, but think that if the Bank in

* Allowance should be made, with reference to the reduction of the Bank rate of interest, for the circumstance that after March, 1845, it was a *minimum* rate, — a new practice of the Bank, which has aggravated all the other inconveniences of a variation of its rate, rendering the real rate somewhat higher than the declared rate, but also preventing the former from being publicly known.

1844-5-6 had kept up its rates, and thus kept down or reduced its securities, there would have been an increase of its treasure beyond the utmost amount that it actually did reach. One million additional of treasure is, I conceive, the lowest computation of what must have been the effect of the Bank allowing its securities to run down to so low an amount as they must have reached if the rate of its discounts and loans had been kept up as I have supposed, and that the directors had not made purchases, as I take for granted they would not, of public securities at the high prices then prevailing. The treasure would thus, I presume, have amounted, in the summer of 1846, to nearly 18 millions; assuming all other things to have been the same as regards the reserves of gold held by other banks subsequent to the Banking Acts of 1844 and 1845. The provisions of those acts, however, rendered it in some degree incumbent upon all issuing banks to hold larger reserves of gold than they had previously been accustomed to hold. The extra amount of gold thus reserved beyond the amount previously held, or that would, but for those acts, have been held by the provincial banks, can hardly be computed at less than two millions.* If, therefore, the amount of these extra reserves had been added, as in the absence of the acts in question they would

* I believe that I am considerably within the mark in confining myself to an estimate of two millions as the amount of the gold coin absorbed by the *extra* reserves which the legislation of 1845 compelled the Scotch, and Irish bankers habitually to retain; and it is fortunate that so important a point can be placed on a more certain foundation than a mere statement of individual opinion. Confining, in the first instance, my observations to Scotland and Ireland, I may observe that the acts of 1845 rendered it imperative on the bankers of those countries to retain *in coin* a sum *equal* to the excess of their outstanding circulation above a given maximum. The legal maximum of circulation for Scotland was 3,087,209*l.*, and for Ireland, 6,354,294*l.*; and the following table represents

have been, to the Bank treasure, the amount of bullion in the Bank in August, 1846, would have been between 19 and 20 millions, viz.:—

Amount as it stood 29th Aug., 1846 -	£16,366,000
Addition supposed from diminished securities of the Bank - - -	1,000,000
Addition of what, but for the extra reserves of provincial banks, would have flowed into the Bank - -	2,000,000
	£19,366,000

Here, then, would have been the Bank with a treasure of upwards of 19 millions at the first manifestation of a drain in the autumn of 1846. I may also take credit for the probability that the drain would have been somewhat less by the difference of

the state of the Scotch and Irish note issues in December, 1845:—

	Date.		Actual circulation.		Excess of actual circulation above the maximum.
			£		£
Scotland -	5 Dec. 1845	-	3,804,000	-	717,000
Ireland -	"	-	7,715,000	-	1,361,000
					2,078,000

As the whole of this excess of actual circulation beyond the statutory limit was represented by coin in the safes of the several banks, it is plain, that leaving England entirely out of view, an extra internal demand of more than two millions was caused by the acts of 1845 in Scotland and Ireland alone. The maximum of the English country circulation was fixed at 8,478,893*l.*, an amount considerably less than that usually in circulation in past years of ordinary prosperity. The vacuum has been filled to a certain extent by the paper of the Bank of England. But a very large proportion of the new medium has been in the shape of coin; and whether this proportion may be one half, three fourths, or the whole of a million, according to the periods of the year, it is certain that it constitutes an important addition to the extra demands from Scotland and Ireland, and more than justifies the assumption made in the text.

the rate of discount between 3 per cent. as it was, and 4 per cent. as it would, upon my hypothesis, have been in the interval from August, 1846, to January, 1847. The directors might safely have looked on without altering their rate till the end of January, 1847. By that time having lost (say) 3½ millions of their treasure, and being under the responsibility of keeping up a large reserve, and exercising foresight with that view, which would have led them to the conviction that the causes of drain were of a formidable character, they would, as I imagine, have raised their rate to 5 per cent.

It is not improbable that the directors, having raised the rate to 5 per cent. at the end of January, and having still so large an amount of bullion, would have waited till the 8th of April to judge of the progress and character of the drain; when, seeing a further loss of 3 millions, they might have thought it necessary to raise the rate to 6 per cent. per annum. If this advance had not had the effect of visibly checking the drain, and if by the 17th of April there were to have been, as there was, a further loss of treasure, the directors might have reduced the dates of bills admissible for discount to 60 days, instead of 95 days. This would have operated as a considerable restriction of accommodation, but would not have been attended with any thing like the shock to credit that attended the violent measures which were actually adopted by the Bank at that period, and which I have elsewhere described.

Every merchant, or manufacturer, or banker, possessing good bills not exceeding the Bank time, would still have been secure of converting them, so as to enable him to meet his engagements; but this he could not be sure of under the restrictions which were actually imposed.

The effect of the shock of the 17th of April was

almost immediately to turn the exchanges; and, in a few days after, to stop the drain.

The mere increase of the rate of interest to 6 per cent., and a restriction of bills to 60 days, would not have had the same effect in turning the exchanges; and there would consequently have been some longer continuance of the drain.

I will suppose, therefore, on account of this difference, that two millions more of bullion would have been exported before the foreign demand ceased. This, I am convinced, is a large allowance.

The drain, then, which was surmounted in the beginning of May by the payment of seven millions, and by the violent restriction of credit by the Bank in the middle of April, would, in my hypothetical case, have been surmounted a few weeks later with the loss of nine millions.

Under the existing system, the bullion remaining when the drain was stopped by the violent shock that has been described, amounted (24th April, 1847) to 9,210,000*l.*

According to the system which I have supposed, by the simple pressure of a high, but uniform rate of interest, and moderately restricted accommodation, the drain would equally have been surmounted, although a few weeks later, and with the loss of two millions more of bullion; but the amount of bullion held by the Bank would, at the end of the drain (say 26th June, 1847), have been 10,300,000*l.*, or one million more than actually remained after the convulsion in April last.

Such, I conceive, is, as nearly as may be estimated, the difference between what *actually occurred* in the first six months of 1847, under the act of 1844, and *what might, and in all probability would, have occurred* without it; and with only the precaution which, according to the view I have suggested, a wise minister might be supposed to have taken in agreeing to the renewal

of the Bank Charter:—a stipulation that the directors should hold, habitually, a much larger reserve of bullion.

The case is still clearer as regards the last six months of 1847.

The great, immediate, and most formidable causes of the drain having been overcome before the end of June, the policy of the Bank would have been, in pursuance of the same system, not to have relaxed from whatever rate of interest, or restriction of accommodation, it might have imposed, till the whole of the disturbing causes had subsided, and the influx of bullion had so far set in as to afford ample assurance of the reinstatement of the proper amount of its treasure.

Under this policy, the feverish state of the money market, commencing at the end of July, and the convulsion of it terminating in the crisis of the week ending on the 23d of October might, as I think, have been avoided.

I have already supposed that the drain of the first six months, which carried away seven millions of the Bank treasure under the present system, would have taken two millions more under the system which I have suggested. The amount of the treasure would, therefore, have been, on the 26th of June, 1847, 10,300,000*l.* Or, in other words, allowing for an addition of three millions to the amount of bullion held by the Bank at the commencement of the drain (according to the computation at page 381. *antè*), and for the drain having lasted two months longer, and carried away two millions more than it did—the amount of the bullion, at the end of June 1847, would have been one million greater than it was when at its lowest point in the last week of April. The balance of trade was, at that time, as nearly as possible, adjusted. A few hundred thousand pounds (not exceeding half a million) formed the utmost extent of any foreign

demand within the four or five weeks following; and there is no reason to suppose that the demand would have been greater in my hypothetical case than that which actually occurred under the present system.

Thenceforward, that is from the commencement of August, there was not any foreign demand for gold, and there would not, as I believe, have been any, supposing the Bank rate of interest to have then been 5 per cent., or, at the utmost, 6 per cent. as a uniform rate, for all such bills as were admissible under the former system, and for the description of accommodation usually granted. In the early part of August, the great fall in the price of all descriptions of food had removed all apprehension of further large importations; and the extensive failures in the corn trade, followed by the still more important and extensive failures in other branches of commerce, these being, moreover, accompanied by failures of banks, caused such a degree and extent of discredit as left an immense vacuum in the ordinary channels of circulation. The whole of the increased demand, therefore, on the Bank of England, for accommodation, thenceforward was clearly for purposes purely internal, and with the amount of bullion which it then possessed, and still more with the amount which it would have possessed in my hypothetical case, there was not, and could not have been the shadow of any ground for apprehending a further inconvenient reduction of its treasure.

The directors therefore, instead of resorting to violent measures of restriction, as they were bound to do under the act of 1844, from the latter part of September to the 23d of October, in order to protect the narrow margin of their reserve, might, with perfect safety, have extended their accommodation to all legitimate claims upon them within their

ordinary rules. Thus some of the enormous sacrifices of property, and much of the intense suffering of a large part of the commercial community might have been spared. And I verily believe that, under the management here supposed, there would have been a larger amount of bullion in the Bank than there proved to be at the end of October last — namely, about eight millions.

I have thus sketched an outline of the grounds on which I consider it beyond question, that if, instead of the pedantic scheme of dividing the Bank into two departments, and restricting the *amount* of the circulation of the country banks, the simpler plan had been adopted of requiring the Bank of England to possess habitually a much larger reserve than it had before held, the two tremendous shocks, of April and October last, might have been avoided, without the possibility of danger to the convertibility of the paper, and consistently with leaving a larger amount of treasure in the Bank, not only through all the earlier and more rapid stages of the drain, but also at the final termination of it.

But I will put a still stronger case in illustration of my opinion, that, without the act of 1844, there would have been no real danger to the convertibility of Bank notes.

Let us suppose that, in 1844, seeing no reason for a change of system in the Bank management, Sir Robert Peel had confined his arrangements, for the renewal of the charter, to a merely pecuniary consideration of the terms; or, what is, perhaps, a still more simple hypothesis, that the charter had been renewed in 1832, as on former occasions, for an uninterrupted term of twenty-one years. We will also suppose, that whatever regulations might have been thought necessary or expedient with a view to greater security for the solvency of the country banks, there would have been no restriction imposed on the amount of their circulation, as by the acts of

1844–5. What then would, probably, have been the management of the Bank, and what the results, as compared with those which we have experienced?

The presumption I think is, that in September, 1844, the directors not considering themselves, as they did, in obedience to the spirit of the new act, released from their former rules or practice, would not have reduced their rate of discount. If they had kept to their routine line of policy in that respect, the probability is (on the grounds which I have suggested in the former part of this section), that the influx of bullion would have been increased by about a million at least; and of the whole stock of bullion then in the country, there would, as in my former hypothetical case, have been two millions more in the coffers of the Bank of England, by the release of so much required, by the acts of 1844–5, to be held by the country banks. With the addition, then, of these three millions to the stock of bullion in the Bank, in August 1846, the amount would, as I have supposed in the former case, have been somewhat more than nineteen millions to meet the drain then setting in. The only difference between the former hypothetical case and this is, that in the first, the directors might be supposed (being bound by an implied engagement entered into for the maintenance of a larger habitual reserve of bullion), to have taken earlier measures to counteract the drain; whereas, under the second supposition, having no such engagement, they might be supposed to have allowed the drain to proceed much further before they raised the rate of interest above 4 per cent.

Granting that the directors, in the case last assumed, had suffered the drain to proceed till the 8th of April without any advance of their rate; by that time the loss of bullion would have been so

striking, that whatever might be the stupidity, perverseness, or ignorance, so liberally ascribed to them by Sir Robert Peel and Sir Charles Wood, they could not fail to have advanced the rate to 5 per cent. per annum. Thus far, then, they would have been *pari passu* with the state of things that actually occurred.

In each case, namely, the actual one, and that which I have last supposed, the rate on the 8th of April would have been raised to 5 per cent. But while, under the new act, the amount of bullion in the two departments was ten and a quarter millions, not more than one-third of it was applicable to the most variable, and consequently most hazardous branch of the liabilities.* Under the former system, according to my hypothesis, there would have been thirteen and a quarter millions applicable to the whole of the liabilities †, and the question now is, how, under those circumstances, it is likely that the directors would have acted.

It can only be on the presumption that they were perfectly uncorrected and incorrigible by experience, and had, therefore, not profited at all by the lesson of 1839, that they can be supposed, after having raised their rate of discount, on the 8th of April, to 5 per cent., to have remained perfectly passive under the further progress of the drain. I should rather believe that, seeing the strength of the tendency to a further efflux of bullion during the remainder of that month, they would, before the close of it, have taken a further step, by either

* Bullion in the Bank on 17th April, 1847.

Issue department - - - - - -	£6,250,000
Banking department - - - - - -	3,080,000
Total - - - -	9,330,000

† But probably somewhat more, as before observed, in consequence of the higher rate of interest between August, 1846, and January, 1847.

raising the rate of discount, or reducing the number of days for bills, or by the sale of securities, or by adopting all these means of checking the drain. But I will allow to the currency party the full benefit of the assumption, that the directors would have been imprudent enough to have taken no step whatever for the reduction of their securities; and thus to have allowed the drain to have taken its course unchecked, as far as the Bank of England was concerned. What then would have been the further course which the drain would have taken, thus unchecked by the Bank, except by an advance of one per cent. in the rate of discount?

According to the currency theory, the drain, unless the Bank *contracted its circulation*, would proceed, uninterruptedly, to the utter exhaustion of its treasure.

This doctrine of the *interminable* nature of drains, like every other peculiar to the currency theory, I consider to be utterly untenable upon any general ground of reasoning, and at variance with all experience and evidence of facts.

I cannot better convey my opinion of the nature, and causes, and limits, of a drain of gold, for export, than by quoting the following passages from a writer in whose views of the subject, expressed with admirable clearness, I perfectly concur:—

"Considering how great, and almost exclusive, a stress has been laid upon the extraordinary security said to be furnished for the convertibility of Bank notes by the Act of 1844, there is perhaps no point of more importance than to define as far as possible the nature of the only danger to convertibility against which that act can be imagined to contain a safeguard. Danger from internal panic, we have seen, it does not prevent. On the contrary, it tends to produce such danger when it does not exist, and to aggravate it when it does. But the danger of having the whole of the Bank bullion drained out for exportation is that against which we are assured that the Act of 1844 is an effectual remedy. How is it, then, that we ever come to be exposed to this danger, and what are the means of averting it?

"The general law under which drains of gold for export take place is extremely simple, and if the whole of the circumstances naturally attending its operation were investigated, it would probably be found much less alarming than it has been generally represented. The debts and credits of two countries trading together generally balance each other, or are brought to an equality by the aid of some third country, which is a creditor to one of the two, and a debtor to the other. Thus, directly or indirectly, goods are paid for in goods. But it happens, from time to time, that payments requiring to be made out of the ordinary course of trade are most easily effected by a transmission of the precious metals, and when this happens, gold or silver, as the case may be, will flow out of the debtor country. The chief cause of such payments in time of peace is a sudden and unusual import, which, from the nature of the case cannot be met by a sudden and equally large export; and imports of corn to supply a defficient harvest have been hitherto, in the anomalous state of our corn trade, almost always of this kind. When such an event occurs, however, it is evident that a certain definite payment has to be made, and that when gold enough has gone out for the purpose, the exchanges will revert to their ordinary state, and the general movement of trade will be the same as before. It would be clearly an absurdity to infer from the fact that a set of London merchants had incurred a debt of five millions sterling for corn to a set of New York merchants, and were discharging it by sending out gold, that therefore there would be no end of the transmission of gold, unless active measures were taken to stop it. The debt would be paid by the individual merchants, let the law or the Bank say what it might; but it is equally certain that the payment would not exceed the debt. We have had some considerable drains of gold which came to an end without any effort being made for the purpose. The definite extent, and the natural course and termination of drains, resulting from a variety of causes, have been explained in the most lucid and instructive manner, by Mr. Fullarton, in his able work on the currency. *In almost all cases, if we had a sufficient stock of gold in hand at the outset, the drain might safely go on until the foreign demand was satisfied, without disturbance to commerce.* If, therefore, our stock of bullion were adequate, and our commerce generally in a sound state, the infliction of pressure to check so harmless a movement would be gratuitous folly.

"Our stock of bullion, however, may not be large enough to bear much diminution, or, though large, the probable drain may be great enough to threaten a dangerous reduction of it. In either case something must be done to keep up an adequate stock of treasure. There are but two things that can be done. One is to force goods abroad in payment of the debt, instead of

gold. The other is to induce foreigners to send gold for investment in our interest-bearing securities. In the latter case we pay the debt by the export of stocks and shares. In all cases the debt is discharged. The principle upon which the Act of 1844 was founded was that of counteracting a drain by forcing the export of goods. This, however, even when it is practicable, can only be done by a most violent and destructive operation upon the value of all kinds of mercantile property dependent upon credit. The arrangements of the act are such as to ensure practically that when the bullion in the Bank is no more than about eight millions discounts shall be stopped and merchants thrown for the means of meeting their engagements entirely upon their own resources. By this means goods held upon credit may be forced upon the market, and the reduction of price so brought about may facilitate exportation. It must be admitted that this, if it be a remedy, is a truly desperate one. It is, in fact, a kind of quackery, which may possibly be admissible when all else fails, but which certainly ought not to be called in except in the last extremity.

"The only other mode of counteracting the effects of a drain of bullion is by establishing, if possible, such an advance in the current rate of interest as may attract capital from foreign countries. The application of this remedy need not of necessity be attended either with serious commercial disturbance or with discredit. It would make discounts dear, but neither unattainable nor uncertain; and supposing trade to be upon the whole in a sound state, the greatest evil arising from it would be a temporary diminution of commercial profits. It is by this remedy only that the drain of gold has been counteracted in the present year, and it is only in so far as it operated upon the rate of interest that the Act of 1844 has had any real influence in preventing the exhaustion of the Bank bullion. If the act had had no other operation, the country would have been spared the distress and mischief of the two panics, and yet have been just as well supplied with gold as it is at present. But even this remedy, though the most effectual and least objectionable, cannot in all cases be relied upon, for the gold will at all events flow out to discharge the foreign debt, and it is not always certain that the gap can be filled up from some other quarter. Hence we may conclude, that not only the ease and security of our commerce, but the steadiness of our whole monetary and financial system, require the maintenance in this country of a stock of bullion large enough to meet such demands upon it as may occasionally arise from an unfavourable exchange; or what, with a paper convertible into gold, is the same thing, from an adverse balance of foreign payments. The practicability of keeping up a great stock of gold is sufficiently proved by the fact, that in the ordinary course of trade the precious metals have a

stronger tendency to flow into England than into any other country; but the objection hitherto made to such a measure has always been its expense. It is of course natural to expect that the Bank of England should be unwilling to hold an excessive proportion of its capital in a form generally unprofitable, and its readiness, if not impatience, to get rid of its gold on some remarkable occasions, however injurious to the public, cannot be considered surprising in a commercial corporation. But if the management of this vast central hoard of bullion, being as it is a national reserve for certain great emergencies, were viewed in its true light, as an object of primary national importance, we do not believe that there would be any serious difficulty about the cost of keeping it up."—*Morning Chronicle*, 29th Dec., 1847.

My belief, then, is, that the stock of bullion in the Bank, at the beginning of April, namely, twelve and a half millions, would have been *ample* to have satisfied the drain, without resort, by the Bank, to any measure more violent than an advance to 6 per cent, and, possibly, a reduction of the *echéance* to sixty days. But I am inclined to think that it would have been *sufficient* if the rate had been simply advanced to 5 per cent.

I have already supposed that, with an advance to 6 per cent. and 60 days' *echéance*, the drain would have carried off two millions more of gold than actually went in April and May. Granting, then, that in consequence of not advancing the rate above 5 per cent., and retaining the *echéance* at ninety-five days, one or two millions more had gone, making the reduction of treasure altogether greater by three or four millions than that which actually occurred; and taking the reduction at four millions; this, added to the seven millions, by which the treasure had been diminished between August 1846 and May 1847, would make eleven millions to have gone towards redressing the adverse balance of trade: leaving, still, eight millions in reserve.

Now that the whole cycle of events, from the commencement to the termination of the drain, is completed, it would be well worthy of the consider-

ation of those who have better means of judging than I have, how far the circumstances affecting the trade of the country, and the value of securities, including railway investments, would justify the supposition that a much larger sum than that which I have here assumed, would have been required, without any violent contraction of accommodation by the Bank.

There are two reasons that weigh with me in coming to the conclusion that the sums I have set down would have been more than sufficient to satisfy the demand for export.

One reason is derived from a reference to the drain of 1824-5. It appears that from the 31st of August, 1824, to the 31st of August, 1825, the loss of treasure by the Bank was about eight millions, namely, from 11,727,430*l.* to 3,634,320*l.* But, as the exchanges had turned before the end of July, 1825, the probability is that some part of these eight millions had been taken for internal purposes; especially as there were already premonitory symptoms of discredit among the country banks. At any rate, these eight millions had fully satisfied the foreign demand, and the drain had run out without the smallest effort on the part of the Bank to resist it; there having been no advance in its rate of discount above 4 per cent. Here, then, was the case of a perfectly spontaneous termination of a drain, which was of a very formidable character, by an export of eight millions of gold.

The other reason, on which, indeed, I lay more stress, is derived from a reference to the Bank of France. That establishment was, in December 1846, very critically situated, so much so, as to be compelled to have recourse to a measure very similar to that which had been resorted to by the Bank of England in the autumn of 1839. It borrowed a sum of 800,000*l.* from parties in London; and its prospects, at that time, were full of

peril. In proportion to the magnitude of the commerce of the two countries, the balance of trade seemed *relatively* to be more adverse to France than to this country, the former requiring an enormous importation of food, while its resources for the payment of it, by exports of commodities, were much less; and yet the Bank of France took no other measure for the counteraction of the effects of that adverse balance, than a very late and reluctant advance in its rate of discount from 4 to 5 per cent. The purchase from it of fifty millions of rentes by the Russian government no doubt operated as a relief. But it operated also, though indirectly, as a relief to the Bank of England, because, if the Bank of France had not been so relieved, its difficulties and necessities would have caused a further depression in our exchanges on Paris, and would have required more effort on the part of the Bank of England to turn them. I mention the instance of the Bank of France, because the doctrine of the currency theory that drains cannot be surmounted without a contraction of the circulation, would apply to it, in an eminent degree; and yet the drain there did terminate without any contraction worth mentioning of the circulation, and with only a rise in the rate of discount, from 4 to 5 per cent. And, further, because the example of the Bank of France has, on some former occasions, been held up in disparagement of the Bank of England.

- In proof of the pertinence of my allusion to the experience of the Bank of France, and as a further instance of the occurrence of a serious drain of treasure in the face of an almost undiminished outstanding circulation, I may refer to the official returns of that establishment. I would particularly direct the attention of the partisans of the currency theory to this striking addition to the catalogue of anomalies which they find it so difficult to explain in accordance with their peculiar doctrines. For here in France is the same discrepancy as in England

But, recurring to the comparison between what has taken place, under the act of 1844, and what would have taken place, if the only precaution taken by the Bank of England, in April last, had been confined to an advance of its rate of discount from 4 to 5 per cent., according to my supposition, I think there might have been an export of bullion, in all, between August 1846 and August 1847, of about eleven millions; thus leaving, after the full satisfaction of the drain, at the latter date, eight and a half millions, which, inasmuch as all further demand, if any, for gold, must have been for internal purposes, would, unquestionably, have been quite sufficient.

The hypotheses I have ventured to introduce in the preceding pages, will of course be contested, and I readily admit that I have no means of proving them: they are mere conjectures; but they are better entitled to attention, presenting, as they do, some tangible grounds for computation, than the confident assumption, without any details whatever, by the advocates of the act of 1844, that, but for that measure, we should have had a suspension of cash payments.

I will, however, bring the matter to a still closer test. Let us take the supposition by Sir Charles Wood, in his speech of the 30th of November, that, but for that act, the bullion in the coffers of the Bank might have been reduced to between two and three millions. The reduction of the bullion to this low amount, supposes that the drain from

between the variations of the notes and of the bullion. The following were the average results of the quarters ended, —

Quarters ended.	Outstanding circulation. Francs.	Coin and bullion. Francs.
25 March, 1845	256,000,000	266,000,000
26 Dec., 1845	269,498,000	187,334,000
26 Dec., 1846	259,459,000	72,734,792
25 March, 1847	249,404,000	79,535,000

August 1846, to October or November 1847, would, in the absence of the act, have gone to the extent of sixteen millions.

Granting, for the sake of argument, that the amount of bullion had been so reduced; but not, for a moment admitting the remotest probability of such a run for gold, subsequently, as Sir C. Wood proposes, I would ask whether, after having parted with nine millions of gold more than actually was exported, amounting in all to sixteen millions, from the commencement of the drain, and therefore satisfied so much of the foreign debt, the directors would have found more difficulty in rectifying the exchanges than they did in April 1847? Is it possible that any competent person can, for a moment, doubt that there would, under such circumstances, have been less difficulty, if any difficulty at all;—and, if not, what becomes of the bugbear of our being reduced to suspend cash payments?

Section 21. — *The Conclusion of the Argument on the Act of* 1844.

The view which has been sketched in the preceding section of *what might have been* compared with *what was*, is not only of importance in showing how much in error Sir Robert Peel and Sir Charles Wood were, and probably still are, in their estimate of the operation of the act of 1844: it also suggests the consideration of the immense advantage which a large treasure is calculated to afford to the Bank in an undivided state, in greatly mitigating the pressure which is inevitably incidental to the occasional occurrence of casualties entailing, suddenly, an adverse balance of trade.

The advantage which I thus ascribe to the possession by the Bank of a large treasure, consists in its enabling the directors to regulate their management with fewer and less abrupt changes in the rate of interest, and in the degree and kind of accommodation, than would be necessary with a comparatively small reserve. The difference, in this respect could not, by possibility, be more strikingly exemplified than by the experience of the present law.

I have shown, on the strongest grounds of hypothetical reasoning, with how few changes, in the rate of interest, the Bank might have surmounted the recent pressure, if it had had the *undivided possession and use of the bullion in its vaults;* and more especially, if it had had the possession and use of the two millions or thereabouts, which were, and are, absorbed very uselessly, as a consequence of the restriction on the circulation of the country banks.

Under the present law, according to the experience which we have had of it in the memorable year which has just closed, the changes in the rate of interest, and still more in the extent and kind of accommodation, have been at least as frequent, as abrupt, and as violent, as might have been found to be necessary if the Bank had been on its former footing, with little more than half the amount of bullion which was in its vaults in August and September 1846. With a stock of bullion of ten millions at that time, on its former footing it might have counteracted the drain so as to have saved itself (that is, it might have rectified the exchanges, notwithstanding the formidable extent of the adverse balance of trade,) by measures not more violent than those which the directors were, in self-defence, obliged to resort to in April last (1847).

We will suppose that, having a treasure of only

ten millions in August and September, 1846, they had been as supine in the interval between that time and April, as they were in 1839, and that, by the middle of April, the bullion, after the payment of seven millions towards satisfying the adverse balance of trade, had been reduced to the same amount as the banking reserve was at that time, namely, about three millions.* If, then, having no resource such as was resorted to, in 1839, by a loan from France, the directors were determined, at any sacrifice, to save themselves from the necessity of suspending cash payments, as resolutely as the directors were last April to protect the reserve in the banking department, there is no reason whatever to suppose that they would not have been equally successful in turning the exchanges, and consequently stopping the drain.†

* There were eight weekly returns in 1839 (six of them consecutive, in August and September) in which the bullion was only 2,400,000*l.*

† Sir Robert Peel seems to have had a glimpse of the power of the Bank to save itself under most circumstances, and of its being only a question of the effects on the commercial community, whether it is expedient to resort to measures so violent as in some cases might be necessary. In the following passage of his speech in the debate of April 25th, 1845, he admits that under the former system there might be a *guarantee for the permanent convertibility*; but there would be a liability, he supposes, to a violent contraction of the circulation deranging the monetary transactions of the country. How much less, might it be asked, has there been of derangement than was contemplated in the following remarks?

After repeating some of the assumptions on which the House had proceeded, Sir Robert Peel added, "There was another assumption on which the House also acted — that with a perfectly unregulated competition in the issue of paper there was no necessary guarantee for the permanence of the convertibility of that paper, or rather, I should say, that *though there might be the guarantee of permanent convertibility*, yet there was no guarantee, where competition was perfectly unrestricted and unlimited, *against the occasional necessity of sudden and violent contractions* of the circulation, *leaving, indeed, the notes convertible into gold, but deranging the monetary transactions of the country, and shaking all confidence, even in public credit.*"

The fair inference to be deduced from this view is, that by the mistake—and a gross mistake it is, or. to use a more emphatic, and therefore more appropriate term, the great and grievous blunder*, committed in the separation of the Bank into two departments; the six millions of capital in the shape of bullion in the issue department were perfectly inert, cut off, and inapplicable to the purpose of relieving the intense pressure which was felt from the want of available capital; and that consequently no advantage whatever was derived by the country from possessing, accidentally, (*for it was by no merit of the act*,) so very large an amount of bullion as existed at the commencement of the late drain.

It is hardly possible to imagine confirmation more complete than that which is thus afforded by experience and the evidence of facts, of the correctness of the anticipations which were entertained and expressed of the probable operation of the act by those who had originally opposed the measure. With a larger stock of bullion than was ever before accumulated in the vaults of the Bank, the commerce of the country has been visited with shocks which could not have been exceeded in violence, if the total amount of treasure at the commencement of the drain had been only one half of that which it actually reached.

With upwards of 16,000,000*l*. of bullion in hand, the Bank, when called upon to meet a drain for foreign payment, the actual extent of which did not reach nearly half that amount, and which, in all probability, would not, under the

* According to Dr. Johnson, the meaning of the word "blunder" is "a gross mistake."

least vigilant management conceivable, have reached 10,000,000*l.*, found itself so crippled by the arbitrary separation of its departments, that the directors were under the necessity of resorting to measures more severely restrictive of commercial credit than any that had been known since 1796–7. The variations, in the rate of interest, during the year 1847, have exceeded in frequency and extent any of which there is to be found an example in the commercial history of this country. The number of the variations of the Bank minimum rate of discount has already been noticed. (See p. 330, *antè.*) The *range* of variation of the Bank rate, since Sept. 1844, has been from 2½ per cent. up to 9 per cent., and recently down to 4 per cent. But within little more than nine months, namely, from the beginning of April, 1847, to the end of January, 1848, the range has been from 4 per cent. up to 9 per cent., and back to 4 per cent. While the market rate has varied, in this latter interval, from 4 per cent. to 12, 15 and 20 per cent., and fallen back to less than 4 per cent.

The three concluding propositions with which I terminated my view in 1844, of the plan then in contemplation, pursuant to the currency theory of dividing the Bank into two departments, will perhaps form the most fitting conclusion of my argument on the act by which the scheme, then in contemplation, was carried into effect.

"15. That it is only through the rate of interest and the state of credit, that the Bank of England can exercise a direct influence on the foreign exchanges.

"16. That the greater or less liability to variation in the rate of interest constitutes, in the next degree only to the preservation of the convertibility of the paper and the solvency of banks, the most important consideration in the regulation of our banking system.

"17. *That a total separation of the business of issue from that of banking is calculated to produce greater and more abrupt transitions in the rate of interest, and in the state of credit, than the present system of union of the departments.*"

Sir Robert Peel, in the peroration of his speech of the 6th of May, 1844, thus described the importance of the measure he then brought forward, and the beneficial effects it was calculated to produce: —

"Considering the part which I took in the year 1819 in terminating the system of inconvertible paper currency, and in re-establishing the ancient standard of value, it will no doubt be a great source of pleasure to me, if I shall now succeed, after the lapse of a quarter of a century since those measures were adopted, in obtaining the assent of the House to proposals which are, in fact, *the complement of them, and which are calculated to guarantee their permanence, and to facilitate their practical operation.*"

A greater contrast cannot well be conceived between the expectations thus held out by the framer of the Act of 1844, and the results which have attended its operation. So far from there being any just ground for the claim set up for it to be considered in the light of a complement of the measures of 1819, calculated to guarantee its permanence, or to facilitate its practical operation, it may with more truth be said that *it is an ugly excrescence, calculated to endanger the permanence, and to impede and derange the operation of the measures of* 1819.

As the result of a careful examination of the principle* on which the Act of 1844 was founded, and

* I have here to repeat, what, I cannot too strongly impress upon my readers, that it must be distinctly understood, that throughout the whole of my argument on the principle and operation of the Act of 1844, I have in view only those provisions of it which divide the Bank of England into two sepa-

of the experience of its working since the time when it came into operation, I have no hesitation in giving it as my opinion that it is a *total*, *unmitigated*, *uncompensated*, and, in its consequences, *a lamentable failure.*

In conclusion, I am wholly unable to suggest any scheme of regulation by which the occasional recurrence of periods of commercial discredit and distress can be prevented. But whatever may, hereafter, be the causes of such disasters, their effects cannot, in my opinion, fail to be greatly aggravated by restrictions, such as those of the present law, upon the amount of the Bank note circulation; and, more especially, by the division of the Bank of England into two departments, (as one of the methods of imposing a limit on its issues.)

All that I have to recommend is—

1. A total abrogation of those provisions of the Acts of 1844 and 1845, which limit the amount of the note circulation, and separate the function of issue from that of banking in the business of the Bank of England.

2. Such an arrangement with the Bank of England as will insure that its business shall be conducted upon a much larger average amount of bullion than that which, from the renewal of the charter in 1832 down to 1843, the Directors seem to have considered it incumbent upon them to maintain.

rate departments, and which *limit the amount* of the country circulation. As to those provisions of the Act which relate to better securing the solvency of the country banks, whether issuing or non-issuing, whether joint stock or private, I have not entered upon them at all. I have no objection to any measures calculated to improve the *quality* of the notes, that is, the solvency of the issuers. My objections are confined to interference with their *quantity*.

APPENDIX.

CONTENTS OF THE APPENDIX.

SUPPLEMENT TO PART I.

It would appear that the yield of the harvest of 1847 was, in the first instance, in some degree over-rated. This was a natural result of the appearance of bulk on the ground, and in the gathering, which seems to have distinguished the wheat crops throughout the greater part of the kingdom. The average quality of the grain yet brought to market leads to the inference that, though the produce per acre was larger than in most previous seasons, this is materially counterbalanced, in effect, by a comparative deficiency in the yield of flour.

From the week ending the 18th of September, when the average price of wheat fell to 49*s.* 6*d.* to the end of January (1848) the price has been remarkably even, varying little from an average of about 53*s.* per quarter.

The importations of foreign grain continued to be unusually large till near the middle of November; but the quality, particularly of the wheat, being found, generally, very inferior, these supplies had a much less effect upon the market, during the remainder of the year, than might be anticipated from a mere statement of their extent. It is understood that a large portion of the foreign wheat of low quality, previously in store, was, in December and January, disposed of, at reduced prices, as a substitute for inferior descriptions of grain.

The corn-markets during the last three months of the year were dull and quiet. Wheat of good quality, home or foreign, being apparently not abundant, or likely to be so, has been firmly held for the highest current price; and had the demand not been checked by the depressed state of the manufacturing districts, or had the prospects of trade during the ensuing six months been less gloomy, the prices of grain would probably have ranged somewhat higher after the cessation of the imports in November; the yield of the last harvest being still variously estimated, and the reported condition of the stocks in the corn-growing countries, rendering it unlikely that we shall receive any considerable supplies from abroad, unless at very high prices, before the next harvest.

Average Prices of Corn in England and Wales.

It is generally known that the average prices of the six principal descriptions of grain and pulse, published weekly in the 'London Gazette,' are founded upon returns made by inspectors stationed in a large number of the towns of England and Wales, in which corn-markets are held. During a part of the period embraced in the present volume — that is to say, from its commencement to about June, 1842, — the number of towns from which returns were received, was 150. At about the last mentioned date the number was extended (under 5 & 6 Vict. c. 14.) to 290. This change would appear to have increased the quantity of corn brought under inspection in the process of sale, in the proportion of about four to three.* The effect on the apparent average price, if we may rely upon a comparison of the weekly averages, as calculated separately under the Act above mentioned, and that (9 Geo. 4. c. 60.) previously in operation, during the 57 weeks immediately following the 28th of January, 1843 †, was, generally, to raise the apparent average price (of six weeks) by which the duty was regulated, (which then ranged at about 50*s.*,) by an amount varying from 1*d.* to 5*d.* per quarter. The weekly variation must, of course, have been greater. In other respects, the method of computing the averages appears to have been the same throughout.

In using these averages, it is requisite to bear in mind one or two circumstances connected with their origin. The particular purpose for which they have hitherto been taken — that of regulating the importation of foreign corn — seems to justify their exclusive reference to sales of home grown corn. But in applying them to any other purpose this should not be forgotten. The foreign grain which passes into consumption in this country is usually inferior in quality to our own. If included with that of home growth it would, therefore, tend to lower the general average. The quantity of foreign and colonial wheat, and of other grain, annually taken into consumption, varies from a few thousand quarters to one-sixth or one-fifth of the whole quantity supposed to be consumed; and the importance of the element of foreign supply, in a comparison

* See Parliamentary Paper, Commons, Session 1843, No. 23.

† Papers, Commons, Session 1844, No. 122.

of different years, has, of course, a similarly wide variation. It is also to be considered that the average *quality* of the grain consumed, home and foreign, varies annually, as well as the quantity of each of these taken to make up the aggregate consumption. It need hardly be observed that a quarter of wheat does not always yield the same quantity of flour; and so has not always the same effect upon the ultimate demand; which has reference as well to the nutritive value as to the money price of the article.

The annual average prices, as made up by the inspector of corn returns, are not required for the purposes of the law regulating the importation of corn; nor can they, as at present obtained, be deemed particularly valuable with reference to the more general purposes of statistical inquiry. In computing the weekly averages, regard is had both to the *price* and the *quantity* included in each contract of sale. But the yearly average is obtained simply by adding together the weekly averages for a year, and dividing the sum by 52. The accuracy of the result therefore depends upon the contingency — that the inequalities of the quantities sold weekly, at different periods of the year, shall so balance each other as to render immaterial an entire exclusion of the element of quantity. In most years, the home supply is so regularly distributed over the whole period that the error would probably be very small. In others, however, it is not so.

The average price for the year 1847, as made up in the usual way, is 69*s.* 9*d.*; or 11*d.* less than that of the year 1839. But if regard be had to the quantities sold at each weekly average price, the average for the year is only about 68*s.* per quarter.

Again, the average price for the 52 weeks immediately following the first week in September, 1846, (during which the British crop of that year may be supposed to have been in the market,) if taken in the usual way, is 68*s.* 9*d.* But so irregular was the actual distribution (as shown by the inspected sales) of the produce of the harvest of 1846, over this period, that, were strict regard had to the element of quantity, the average price at which it was really sold, would probably be found not much to exceed 60*s.* per quarter. The following were the aggregate quantities of wheat returned, as sold in each of the four periods of thirteen weeks, each following the 28th of August, 1847, with the average price for each such period, obtained

TABLE of the Weekly Average Prices of Wheat in England and the Nineteen Years

	1829.	1830.	1831.	1832.	1833.	1834.	1835.	1836.
	s. d.	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*
First week - - -	**75.11**	**55.5**	68.3	59.1	52.6	49.2	40.1	**36.0**
Second week - -	75.2	56.1	69.8	59.2	52.7	49.2	40.5	36.6
Third week - -	74.10	56.3	70.6	59.5	52.8	49.1	40.7	37.0
Fourth week - -	74.7	56.2	71.8	60.0	53.1	48.10	41.3	37.10
Fifth week - -	74.7	56.6	73.3	59.11	53.3	48.7	41.7	39.3
Sixth week - -	74.6	56.6	74.8	59.9	53.0	48.11	41.5	39.7
Seventh week - -	73.11	57.2	**75.1**	59.2	52.3	48.9	40.10	39.7
Eighth week - -	72.11	58.4	73.10	58.10	52.1	48.8	40.4	40.7
Ninth week - -	68.11	59.1	72.4	58.2	52.2	48.4	40.4	42.6
Tenth week - -	66.6	59.11	71.9	58.8	52.2	48.0	39.10	44.7
Eleventh week - -	66.2	60.8	71.8	59.5	52.5	47.8	39.8	45.0
Twelfth week - -	67.1	61.2	72.2	59.5	52.10	47.2	39.11	44.2
Thirteenth week -	69.4	62.9	72.4	59.9	53.4	47.4	40.0	44.7
Fourteenth week -	70.3	65.1	71.7	59.6	53.10	47.3	39.9	46.5
Fifteenth week - -	70.3	66.3	70.8	60.0	53.8	47.2	39.3	47.7
Sixteenth week - -	70.7	66.1	70.10	60.11	53.5	47.6	38.10	48.8
Seventeenth week -	69.8	66.5	70.5	61.8	53.0	48.3	38.7	48.10
Eighteenth week -	69.0	65.11	70.3	62.1	53.5	48.4	38.6	48.3
Nineteenth week -	69.2	66.6	69.11	62·1	53.6	48.7	38.9	47.11
Twentieth week - -	69.9	65.4	68.4	61.11	54.1	47.11	39.8	49.3
Twenty-first week -	69.6	65.2	65.5	61.9	53.6	47.2	40.0	50.4
Twenty-second week -	70.7	65.10	66.4	61.9	53.7	46.8	39.10	49.10
Twenty-third week -	71.5	65.11	66.10	61.9	52.10	46.10	39.8	49.5
Twenty-fourth week -	71.3	65.8	67.9	62.4	52.9	47.10	40.1	51.0
Twenty-fifth week -	70.7	66.5	68.1	62.4	53.1	48.10	40.4	51.1
Twenty-sixth week -	69.4	67.5	66.7	63.1	54.4	**49.6**	40.0	50.6
Twenty-seventh week	68.2	68.6	65.9	63.2	54.7	48.11	40.5	50.8
Twenty-eighth week -	66.3	69.6	64.11	63.5	54.1	48.4	41.6	50.7
Twenty-ninth week -	65.10	70.3	64.3	**63.7**	54.8	48.1	42.1	49.4
Thirtieth week - -	66.2	72.8	64.6	63.7	56.4	48.5	43.6	49.2
Thirty-first week -	66.11	**74.11**	65.3	63.5	**56.5**	48.4	**44.0**	49.6
Years - - -	1829.	1830.	1831.	1832.	1833.	1834.	1835.	1836.

Wales, as computed by the Inspector of Corn Returns, during ending 1847.

1837.	1838.	1839.	1840.	1841.	1842.	1843.	1844.	1845.	1846.	1847.
s. d.	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*
58.9	52.9	80.2	66.1	61.8	63.1	47.1	49.10	45.8	55.1	66.10
59.0	**52.4**	**81.6**	65.10	61.9	63.0	47.1	50.9	45.10	56.3	70.3
59.6	52.11	81.4	66.0	61.7	62.5	47.10	51.8	45.7	56.2	73.5
59.1	53.7	79.3	65.4	60.9	61.5	49.1	52.3	45.7	55.7	74.11
58.9	54.10	77.0	65.2	60.9	60.7	49.3	52.6	45.5	54.8	73.10
57.5	55.4	74.1	64.11	**60.7**	60.6	48.1	52.7	45.5	54.3	71.7
56.5	55.4	71.6	65.3	61.1	59.11	47.5	53.6	45.4	54.9	71.7
56.2	55.3	71.10	65.11	61.10	60.0	47.11	55.1	45.2	55.0	74.7
55.9	55.2	72.10	66.4	62.5	60.10	48.6	56.2	**45.0**	54.6	74.4
55.11	55.3	73.8	66.11	63.6	60.9	48.3	56.0	45.0	54.10	74.2
56.7	55.4	74.1	68.2	63.11	59.11	47.5	56.3	45.1	54.3	75.10
56.9	6.3	71.3	69.3	63.9	59.9	47.6	**56.5**	45.5	55.1	77.0
56.8	10	68.11	69.1	64.4	58.4	47.2	56.5	45.10	55.5	77.1
56.2	57.9	68.8	68.7	64.1	57.8	46.2	55.5	46.5	55.9	74.5
55.11	58.8	68.3	68.11	64.0	58.2	**45.5**	55.1	46.3	56.0	74.1
55.5	58.10	71.0	69.6	63.8	59.10	45.9	55.4	45.11	55.10	75.10
55.6	58.9	72.7	68.7	63.8	60.7 *	46.7	55.6	45.11	55.6	79.6
55.9	59.0	71.0	68.5	63.8	61.0	47.0	55.3	46.0	56.5	81.10
55.10	60.0	70.6	68.1	63.2	60.8	46.4	55.1	45.10	56.8	85.2
54.7	60.10	71.2	68.7	62.5	59.9	46.2	55.10	45.9	57.0	94.10
53.4	62.2	70.8	68.0	61.6	60.9	47.2	55.10	45.9	55.5	**102.5**
54.4	62.4	70.5	67.10	61.6	61.10	47.9	55.6	46.3	53.4	99.10
56.2	63.1	69.7	67.1	62.4	63.6	47.11	55.6	47.7	52.10	88.10
56.4	64.3	69.2	67.7	62.2	64.0	48.4	55.9	48.2	52.0	91.7
56.5	64.11	68.1	67.4	62.5	63.10	48.11	55.8	47.10	51.5	91.4
56.11	65.6	68.1	67.8	63.5	63.11	49.8	55.9	47.11	52.2	87.1
57.0	67.3	67.10	67.8	63.11	64.3	49.8	55.8	47.11	52.10	82.3
56.4	68.0	69.0	68.6	64.3	64.10	49.10	54.10	48.10	52.3	74.0
56.1	68.0	69.2	69.6	64.11	**65.8**	51.2	54.1	50.0	50.10	75.6
56.11	68.2	69.8	71.4	66.3	65.4	54.2	52.9	51.7	49.11	77.3
59.2	69.1	71.3	71.11	68.3	63.9	57.7	51.0	53.3	47.5	75.5
1837.	1838.	1839.	1840.	1841.	1842.	1843.	1844.	1845.	1846.	1847.

* The Act 5 & 6 Vict. c. 14. came into operation; but the averages were not affected by it for some weeks afterwards.

Table of the Weekly Average Prices of Wheat in England and the Nineteen Years

	1829.	1830.	1831.	1832.	1833.	1834.	1835.	1836.
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
Thirty-second week -	66.10	74.11	64.6	63.2	56.1	48.6	43.2	50.8
Thirty-third week -	66.7	73.4	64.3	63.2	54.2	49.6	42.6	50.4
Thirty-fourth week -	66.1	71.4	61.9	62.0	54.8	48.9	41.1	48.10
Thirty-fifth week -	66.4	70.5	64.2	59.7	54.7	46.5	40.4	46.11
Thirty-sixth week -	68.3	66.7	63.4	58.0	55.1	44.3	39.5	48.1
Thirty-seventh week -	67.1	62.4	63.7	58.0	55.0	43.4	38.10	47.9
Thirty-eighth week -	61.1	60.2	62.9	57.9	53.10	43.2	38.0	47.10
Thirty-ninth week -	60.3	60.8	61.7	56.6	53.0	43.7	37.7	48 5
Fortieth week - -	60.0	62.0	61.0	54.7	52.10	42.9	37.1	48.2
Forty-first week - -	59.4	62.8	59.11	52.4	52.4	41.10	37.0	47.2
Forty-second week -	58.3	62.6	**59.2**	**51.3**	51.7	41.1	36.11	47.0
Forty-third week -	56.4	61.6	60.10	52.7	51.4	40.8	37.0	47.7
Forty-fourth week -	**55.4**	61.3	61.3	53.3	51.7	41.6	36.5	49.7
Forty-fifth week -	55.7	62.3	62.7	52.7	51.6	42 4	36.7	51.8
Forty-sixth week -	56.4	63.9	62.5	52.6	51.4	42.6	36.7	55.6
Forty-seventh week -	57.1	64.8	62.4	53.3	50.11	42.4	36.10	60.4
Forty-eighth week -	56.10	64.8	61.8	53.11	50.8	41.11	36.11	**61.9**
Forty-ninth week -	57:2	65.7	60.9	54.7	49.8	41.11	36.9	59.7
Fiftieth week - -	57.2	66.1	59.6	54.9	49.5	41.1	36.8	60.4
Fifty-first week - -	57.3	67.2	59.3	54.5	49.5	40.11	36.6	60.6
Fifty-second week -	56.5	67.7 68.1	**59.2**	53.2	**49.2**	**40.6**	**36.0**	59.2
Annual average - -	66.3	64.3	66.4	58.8	52.11	46.2	39.4	48.6
Highest weekly average	75.11	74.11	75.1	63.7	56.5	49.6	44.0	61.9
Lowest weekly average	55.4	55.5	59.2	51.3	49.2	40.6	36.0	36.0
Difference - - -	20.7	19.6	15.11	12.4	7.3	9.0	8.0	25.9
Years - - -	1829.	1830.	1831.	1832.	1833.	1834.	1835.	1836.

obtained from the weekly averages, without regard to quantity:—

		Quantity returned or sold in the inspected Markets.		Average Price. s. d.
1st quarter to 28th Nov. 1846,	-	1,891,561	-	56 10
2d „ 27th Feb. 1847,	-	1,618,773	-	67 10
3d „ 29th May, 1847,	-	1,258,383	-	80 6
4th „ 28th Aug. 1847,	-	594,479	-	79 5
		Apparent average		7 12

Wales, as computed by the Inspector of Corn Returns, during ending 1847—(*continued*).

1837.	1838.	1839.	1840.	1841.	1842.	1843.	1844.	1845.	1846.	1847.
s. d.	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*
60.1	69.11	72.0	**72.10**	70.5	61.3	60.9	48.10	55.3	45.2	66.10
59.5	71.8	72.3	72.4	72.5	58.11	**61.2**	49.1	57.0	**45.1**	62.6
59.6	75.7	71.1	72.7	74.7	56.5	59.9	50.4	57.0	45.11	60.4
58.2	77.0	71.10	72.4	**76.1**	55.0	56.8	50.11	56.6	47.10	56.8
56.5	74.5	71.9	68.11	74.1	53.3	54.2	48.6	55.10	49.0	51.4
56.6	70.2	70.9	65.4	71.2	51.6	53.0	45.11	54.1	50.0	**49.6**
57.8	64.2	69.8	64.2	64.8	52.8	50.10	45.3	52.6	51.3	53.6
56.7	61.10	70.1	64.1	63.4	54.0	49.3	45.9	53.2	53.1	56.9
56.6	62.11	70.4	64.7	61.9	53.2	49.5	46.1	56.0	54.0	54.2
55.9	64.9	67.2	64.0	61.6	51.6	50.6	46.3	57.9	56.10	54.3
53.6	66.0	**65.6**	63.3	62.3	51.1	50.8	46.3	58.2	59.10	55.2
51.8	65.7	66.5	62.5	63.6	50.9	50.1	46.0	59.5	60.10	53.6
51.0	66.4	66.5	61.7	64.5	49.5	50.5	46.0	**60.1**	61.9	52.4
51.7	69.5	67.4	62.1	65.5	48.7	51.8	46.3	59.7	62.3	53.8
52.11	72.11	68.6	62.2	66.4	48.8	52.1	46.4	58.6	61.5	54.3
54.4	73.10	69.0	61.8	65.11	49.8	51.7	45.10	57.11	59.8	52.11
53.7	73.4	67.1	60.0	64.9	49.6	51.0	45.4	58.2	59.0	52.1
52.6	73.1	66.3	59.7	63.6	48.6	51.1	45.2	59.0	59.7	51.11
52.8	75.6	65.8	**58.10**	62.7	47.3	50.9	**45.1**	59.4	60.3	52.2
53.5	**78.4**	66.8	59.1	62.9	**46.10**	50.3	45.3	57.11	59.10	53.0
53.2	78.4 78.2	66.5	60.1	62.10	47.2	49.9	45.6	55.4	61.6 **64.4**	53.11
55.10	64.7	70.8	66.4	64.4	57.3	50.1	51.3	50.10	54.8	69.9
60.1	78.4	81.6	72.10	76.1	65.8	61.2	56.5	60.1	64.4	102.5
51.0	52.4	65.6	58.10	60.7	46.10	45.5	45.1	45.0	45.1	49.6
9.1	26.0	16.0	14.0	15.6	18.10	15.9	11.4	15.1	19.3	52.11
1837.	1838.	1839.	1840.	1841.	1842.	1843.	1844.	1845.	1846.	1847.

If the annual average price be computed with regard to the element of quantity only, as here exhibited, for the quarters, and without descending to the (greater) weekly variations, it will be found to be, instead of 71*s.* 2*d.* only 64*s.* 6*d.*

There is another objection to the present method of making up the annual averages, in their exclusive relation

to the astronomical year, beginning the 1st of January. They are thus based, usually, upon about 35 weeks' sales of the produce of one harvest, and about 17 of the produce of another; and so afford no satisfactory indication of the character of either. The period at which the produce of each harvest begins to rule the current price varies, in some degree, with the seasons; but it would obviously not be difficult to fix a date for the commencement of the harvest year, (as, for instance, as the first week in August,) which would cause the annual average price to indicate, with tolerable accuracy, at once the comparative yield of successive harvests, and the annual variations of the cost to the consumer.

Home Supplies of Wheat, in Harvest Years, as indicated by the Official Returns for England and Wales: 1839—47.

THE quantities of wheat of home growth returned as sold in England and Wales in the markets inspected for the formation of the official averages, in each harvest year, are stated in the following table. The harvest year is here computed from the first week in *September* forward, for the reasons given at page 6 *antè* (*note*). It will be borne in mind that about June, 1842, the returns were extended from 150 to 290 markets, under the Act 5 & 6 Vict. c. 14.

Harvest Years.	First Quarter.	Second. Quarter.	Third Quarter.	Fourth Quarter.	Total.
	Qrs.	Qrs.	Qrs.	Qrs.	Qrs.
1839–40	1,051,352	988,671	925,669	1,056,308	4,022,000
1840–41	904,807	953,934	862,456	1,149,451	3,870,648
1841–42	924,939	766,445	806,925	1,127,864	3,626,173
1842–43	1,318,543	1,226,329	1,254,724	1,279,393	5,078,989
1843–44	1,489,025	1,400,627	1,216,621	1,107,181	5,213,454
1844–45	1,617,608	1,751,637	1,630,058	1,665,065	6,664,368
1845–46	1,708,018	1,414,866	1,398,264	1,178,821	5,699,969
1846–47	1,891,561	1,618,773	1,258,383	594,479	5,363,196

Prices and Foreign Supplies of Wheat, in Harvest Years, since 1828.

If it be assumed that each year's crop of wheat rules the weekly average price from the first week in August forward, and that all wheat and wheat flour of foreign production entered for home consumption after the 5th of August in each year goes into consumption with the crop of the current year, the following may be received as an accurate statement of the prices of the harvest year since 1828, and of the foreign supply added, in each year, to that of home growth.

In the Harvest Year.	Annual Average Price.		Quantity of Wheat and Wheat Flour (stated as Wheat) entered for consumption.
	s.	*d.*	Qrs.
1828-9	70	4	1,954,457
1829-30	63	9	548,859
1830-31	67	10	2,857,403
1831-2	61	3	157,107
1832-3	54	5	329,962
1833-4	49	9	77,774
1834-5	41	5	45,084
1835-6	42	8	27,707
1836-7	55	0	35,386
1837-8	57	10	246,994
1838-9	71	8	3,560,957*
1839-40	68	0	1,762,482
1840-41	63	6	1,925,241
1841-2	63	4	2,985,422
1842-3	49	4	2,405,217
1843-4	53	9	1,606,912
1844-5	46	7	476,190
1845-6	54	8	2,732,134
1846-7	68	9	2,458,000

The following is a more complete statement of the foreign supplies of grain, and similar food, imported into

* It would appear from the official accounts whence these figures are taken, that upwards of 500,000 quarters of the wheat entered for consumption in the autumn of 1838, had lain in bond for five or six years.

the United Kingdom, during the harvest years, 1845-6 and 1846-7: —

		1845-6.		1846-7.
Wheat - -	qrs.	1,669,026	-	1,571,433
Barley - -	„	203,865	-	870,444
Oats - -	„	656,273	-	1,294,207
Rye - -	„	324	-	28,885
Peas - -	„	111,623	-	241,791
Beans - -	„	235,689	-	390,454
Maize - -	„	363,111	-	2,906,248
Wheatmeal or flour,	cwts.	2,655,201	-	4,463,724
Oatmeal - -	„	3,622	-	24,329
Ryemeal - -	„	1	-	200,729
Indian meal -	„	95,064	-	1,007,160

The following Table, exhibiting the operation of the three different scales of import duty in use since 1828, at intervals of 5*s.* in the price, may serve to indicate, nearly, the conditions under which the foreign supplies above stated were received, prior to the suspension of the corn laws in January, 1847:

When the Price of British Wheat per Imperial Quarter was—	Import Duties by					
	9 Geo. 4. c. 60 (1828.)		5 & 6 Vict. c. 14. (1842.)		9 10 Vict. c. 22. (1846.)	
s.	*s.*	*d.*	*s.*	*d.*	*s.*	*d.*
50	36	8	20	0	7	0
55	31	8	17	0	4	0
60	26	8	12	0	4	0
65	21	8	7	0	4	0
70	10	8	4	0	4	0
75	1	0	1	0	4	0
80	1	0	1	0	4	0

SUPPLEMENT TO PART II.

THE state of the markets for produce other than corn, have already been observed upon, down to about the middle of September, 1847. To complete the review of the year, it remains to notice the fluctuations of prices during the last three or four months. This period, though short, derives some importance from its embracing considerable variations as well in the prices of some descriptions of produce, as in the rate of interest, and in the amount of Bank notes in circulation. It seems proper, therefore, in treating it, to enter somewhat into detail.

The Table on the next page exhibits the prices of the most important articles of general consumption in this country, in the last week of December, as compared with their prices at the same period in each of the two years immediately preceding; and if taken in conjunction with the similar Table given at page 78 (*antè*) of the prices of the same articles in the second week of September, in each of the same years, it affords a tolerably complete view of the state of prices at the beginning and end of the period now to be considered, during three consecutive years.

If the prices of December 1847 be compared with those of December 1846, a fall will be observed upon about one half, in number, of the articles quoted: but in many of these instances the price of December 1847 will be found, notwithstanding, to be higher than that of December 1845. If the prices of September 1847 [stated *antè*, p. 78.] be compared with those of the end of December, here given, a fall will also be observed, as to about the same number of articles.

In considering what may have been the causes of this fall of prices, particularly after September 1847, it is desirable to take first into account those which are most obvious, and which appear to have operated most widely. There is not, then, it would appear, a single article among those, the prices of which appear to have fallen during the last four months, or indeed during the whole of the year

	1845. December.	1846. December.	1847. December.
Timber, fir, Dantzic and Memel *load*	4l @ 4l. 10s.	4l. @ 4l. 10s.	4l. @ 4l. 10s.
— Quebec yellow pine - *load*	3l. 10s. @ 4l.	3l. 10s. @ 4l.	3l. 10s. @ 4l.
Hemp, St. Petersburg, clean - *ton*	30l. @ 30l 5s.	37l. 15s. @ 38l.	36l. @ 36l. 5s.
Flax, Riga, P.T.R. - - *ton*	46l. @ 52l	46l. @ 54l.	44l. @ 52l.
Tar, Stockholm - - *barrel*	15s. 6d. @ 16s.	17s. 3d. @ 17s. 6d.	17s. 3d. @ 17s. 6d.
Tallow, St. Petersb., New Y.C. *cwt.*	42s. 3d. @ 42s. 6d.	50s. 3d. @ 51s 6d.	44s 6d. @ 45s. 6d.
Ashes, Canadian, pearl - - *cwt.*	24s. @ 24s. 6d.	28s. @ 28s. 6d.	36s. 6d. @ 37s.
Iron, British, bars - - - *ton*	9l 15s @ 10l.	10l.	8l. @ 8l. 5s.
— Swedish, in bond - - *ton*	12l.	11l 10s. @ 12l.	11l. 5s. @ 11l. 10s.
Copper, tough cake - - - *ton*	93l.	88l. 10s.	98l.
Lead, British, in pigs - - *ton*	19l. 10s.	18l. 10s.	18l.
Tin, English, bars - - - *ton*	104l. 10s.	99l. 10s.	83l. 10s.
Cotton, bowed Georgia - - *lb.*	3⅜d. @ 5d.	5¾d. @ 7½d.	4⅛d. @ 6d.
— Surat - - - - *lb.*	2½d. @ 3¾d.	4d. @ 5⅝d	2¾d. @ 3⅜d.
Wool, English - - - *fleece*	12s. @ 16s. 10d.	11s. @ 15s. 10d.	9s. @ 13s.
— Spanish, Leonesa - - *lb.*	2s. @ 2s. 4d.	1s. 8d. @ 2s.	1s. 8d. @ 2s.
Silk, East India - - - *lb.*	8s. 6d. @ 19s.	8s. @ 17s.	7s. @ 14s.
— Italian - - - - - *lb.*	21s. @ 30s.	18s. @ 25s.	14s. @ 20s.
Coffee, St. Domingo - - *cwt.*	31s. @ 35s.	28s. @ 32s.	27s. @ 30s. 6d.
— Jamaica - - - *cwt.*	30s. @ 130s.	25s. @ 115s.	25s. @ 128s.
Tea, Congou - - - - *lb.*	8½d. @ 2s. 3½d.	9d @ 2s.	8d. @ 1s. 6d.
Tobacco, Virginia, in bond - *lb.*	3½d. @ 5½d.	2¼d. @ 5½d.	2¼d. @ 5½d.
Indigo, East India - - - *lb.*	1s. 10d. @ 6s 8d.	1s. 8d. @ 6s. 4d.	1s. @ 5s. 6d.
Cochineal - - - - *lb.*	5s. 1d. @ 7s. 2d.	4s. 6d. @ 6s. 9d.	4s. 4d. @ 6s. 9d.
Logwood, Jamaica - - - *ton*	4l. 15s. @ 5l. 7s.	4l. 5s @ 4l 10s	4l @ 4l. 5s.
Saltpetre, East India - - *cwt.*	25s. @ 28s. 6d.	23s. 6d @ 27s. 6d.	30s. @ 32s.
Sugar, Muscovado, Gaz aver. *cwt.*	37s. 3d.	32s. 2¼d.	26s. 1½d.
Rum, Jamaica - - - *gall.*	3s. @ 3s. 4d.	3s @ 3s. 3d.	3s. 2d. @ 3s. 6d.
Beef, American and Canadian *tierce*	68s. @ 77s.	72s. 6d. @ 100s.	90s. @ 100s.
Butter, Cork - - - - *cwt.*	92s. @ 94s.	92s. @ 94s.	86s. @ 92s.
Bank of England circulation - -	£20,100,000	£20,500,000	£18,700,000
Bullion - - - - - - - -	£14,800,000	£15,000 000	£12,400,000
Market rate of interest on first class bills - - - - - -	4 to 4½ per cent.	3½ per cent.	4½ to 6 per cent.

1847, the *demand* for which was not materially reduced during that period. Not only was the actual consumption diminished, in consequence of a diminution of the means of purchase of a large proportion of the consumers — by high prices of food in the earlier part of the year, and by want of employment and reduced incomes towards its close — but, as is apparent from all the reports of the state of the markets for produce, dealers also very generally refrained, as far as was practicable, from renewing their stocks, either from scarcity of pecuniary means (present or apprehended), or from a natural tendency to await the condition of markets as they should be affected by the restriction of credit, either already felt or anticipated.

On the other hand, while the demand was thus much reduced, the supply was very generally increased; and that, in some instances, from a variety of causes operating concurrently. It can scarcely be necessary here to observe

that commodities held in stock, upon credit, are liable to be thrown upon the market without any very close reference to the state of the current demand, whenever a general restriction of credit, or a material augmentation of the rate of interest, renders the retention of borrowed capital more difficult or expensive than usual. That there are few commodities requiring the investment of large amounts of capital which are not so held, to a considerable extent, is sufficiently well known; and the facts stated and alluded to in the foregoing pages, respecting the commercial failures which occurred in September, October, and November, 1847, afford ample evidence that considerable quantities of East India and colonial produce, in particular, were held upon credit at the period referred to.

The effect of a supply materially augmented by forced sales, being taken in conjunction with that of a reduced demand, it is not very difficult to account for the fall observed in the prices of such articles as tea, silk, indigo, cochineal, logwood, and others, between September and December 1847. Wool, cotton, and flax have suffered, more or less, throughout the year, and more especially towards its close, from a reduced demand for the factories; and iron has been similarly affected by a reduced demand for the railways; besides that, all these articles being held in large quantities, the limitation of credit and the pressure for floating capital must also have affected, more or less, the prices of each, by compelling their sale, or at least urging their holders to attempt to sell them, without giving the usual degree of consideration to the state of the demand for consumption.

The only article, not yet particularly referred to, the price of which has been materially reduced, is sugar. I deem it proper to treat this apart, as it is the article the fall in which was most remarkable, and attracted most attention; and also because, in examining the causes of the fall, I shall have an opportunity of exhibiting, in particular, the utter want of accordance between the fluctuations of prices and of the Bank note circulation observable in the last four months of 1847.

All the causes of reduced prices, already adverted to, bore upon that of sugar with extraordinary force. How far the supply was excessive, may be judged of from the following figures, extracted from the latest returns made up at the Board of Trade: —

Sugar (unrefined) imported into the United Kingdom, and entered for consumption.

	1845.	Gazette average Price.	1846.	Gazette average Price.	1847.	Gazette average Price.
	Cwts.	*s. d.*	*Cwts.*	*s. d.*	*Cwts.*	*s. d.*
In the 8 *months ending 5th September.*						
Imported - -	3,624,239		3,797,907		5,459,914	
Entered - -	3,383,161		3,355,115		4,012,233	
Excess of supply -	241,078	34 8	442,792	31 4¼	1,447,681	25 10
In the 9 *months ending 10th October.*						
Imported - -	4,413,969		4,469,772		6,510,693	
Entered - -	3,888,923		4,020,488		4,581,492	
Excess of supply -	525,046	34 5¼	449,284	32 3¼	1,929,201	23 5¼
In the 10 *months ending 5th November.*						
Imported - -	4,754,614		4,751,973		6,976,067	
Entered - -	4,228,113		4,467,330		4,959,980	
Excess of supply -	526,501	35 10	284,643	33 1	2,016,087	22 6
In the 11 *months ending 5th December.*						
Imported - -	5,038,546		5,028,446		7,414,351	
Entered - -	4,637,448		4,886,543		5,387,054	
Excess of supply -	401,098	36 8	141,903	33 2¼	2,027,297	23 4½

Here the excess of supply would appear to have been quite sufficient to account for the low price observed to begin with. The fall of price between the 5th of September and the 5th of November, from 25*s.* 10*d.* to 22*s.* 6*d.* was, it will be observed, accompanied by an addition of 600,000 cwts. to the previous excess of supply; and the subsequent rise to 23*s.* 4½*d.*, by the 5th of December, seems to be almost justified by the excess of supply having ceased to increase, without reference to any other circumstance. Such is the explanation derived from a consideration only of the extent of the supply in relation to the demand. But enormous as was the actual excess of supply, its effect upon the market is well known to have been materially increased by *forced sales.*

The prices of sugar, however, as of other articles, which fell with it, may be supposed, by the adherents of the currency theory, to have been affected by the variations in the amount of the Bank note circulation produced by the violent efforts of the Bank of England, and other banks,

in the autumn of 1847, to comply with the restrictions imposed upon their issues. A reference to these variations, as they actually occurred, will show how far any such supposition is well founded.

For the week ending the 4th of September, the amount of Bank of England notes in circulation (including post bills) was 19,000,000*l.*; for the week ending the 6th of November, 21,300 000*l.*; and for the week ending the 4th of December it was 19,600,000*l.* Similarly, the Bank note circulation of the United Kingdom, which by the monthly return of the 11th of September, amounted to 33,778,000*l.*, was returned, on the 6th of November, at 36,736,000*l.*; and on the 4th of December, at 34,605,000*l.*

So that the variations which took place in the price of sugar, as of other articles similarly affected by the severe restriction of credit in October, instead of agreeing with, were precisely the contrary of those which an adherent of the currency theory would have deduced from observation of the amount of Bank notes in use; while, as has been seen, a glance at the relation of supply and demand explains them at once.

If, however, further evidence be required of the extent to which the fall of prices observed, as to several articles of importance, in 1847, and particularly in the latter months of the year, is to be accounted for by reference simply to variations in the relation of supply and demand, it is to be found in abundance in the annual trade circulars issued in December, 1847, and January 1848. Subjoined are a few extracts from some of these papers: —

W. J. Thompson and Sons. *22nd December*, 1847.

SUGAR.—Sugar has suffered greater depression during the past month than any other article of importance, the greater ease of the money market not having afforded it any relief: the present stocks in this country are enormous as compared with last year, and the portion held by suspended houses has pressed rather heavily on the market: added to which, the latest accounts from the colonies give prospect of a very abundant supply from most quarters, and the present low price of malt causes only a comparatively small quantity to be used for brewing and distilling purposes.

COFFEE.—During the extreme depression which has now existed for some months past, and which has so seriously affected nearly all descriptions of produce, the coffee market, on the whole, has sustained itself tolerably well, and does not exhibit that great depreciation in value which is perceptible in some of our colonial produce. * * * The stock of British West India amounts to about 2,400 casks, and 3,100 barrels and bags, against 2,300 casks and 1,950 barrels and bags; there is a falling off in the consumption of about 700 casks. The public sales of Ceylon, during the month, amount to 19,567 bags, and 400 cases and casks, of which 14,607 bags were of the plantation,

and 4,960 bags of the native sorts. Owing to the large quantity of the former brought forward at an unusually dull period of the year, and consisting for the most part of inferior qualities, which generally compose the late shipments of the season, the sales have passed off very heavily, a concession in prices having been made in nearly all instances, showing a total decline during the month of 4*s.* to 5*s.* per cwt.

Laing and Bruyner. *5th January,* 1848.

Indigo.—During the past year 55,523 chests have been brought forward at the four periodical sales, of which not more than 28,264 were actually sold, and not less than 5,000 chests of the former quantity taken out, without ever having been exposed for sale; proving beyond doubt that hitherto most unnecessary quantities have been exposed for sale, which circumstance itself is quite sufficient to depress the article, even in the face of a brisk demand, or even a rising market.

Cochineal.—As we fully anticipated in our last annual report, this article, immediately upon the opening of the market, attracted, from its peculiar position, (viz. decreased stock and increasing demand.) a good deal of attention; and during the first three months a very large business was done, with a rapid advance in prices, more particularly during March and the beginning of April, when a purely speculative demand sprang up, and established an advance from the 1st of January, for all descriptions, of at least 6*d.* to 8*d.* per lb. With this advance in price the demand fell off materially, and the importers, as well as holders, having shown at the same time great anxiety to realise, prices declined as rapidly as they had risen. The arrival of large supplies from Mexico in June, coupled with the early arrival of the Honduras crop, caused a still further depression, and so the article remained much depressed during the subsequent four months. * * * With a brisk demand for export, a reaction took place during last month, and a considerable amount of business was done, with a gradual advance, and prices may now be generally quoted about 3*d.* above the lowest price, with a very firm market.

Coffee.—This article, like sugar, opened with great spirit on the 5th of January, and, like that commodity, rose up to the end of the month, and then gradually receded to the end of the year. The differential duty of 18*s.* 8*d.* per cwt. has given such an impetus to the cultivation of coffee, in Ceylon, that the supplies thence have been sufficient to almost drive low foreign coffee out of this market. Forced sales have, however, caused, for some time past, panic prices; and we look with certainty for an advance in the price of good ordinary native of 3*s.* to 4*s.* per cwt., which the article will bear without affecting consumption. Fine, fair, ordinary, and low middling Jamaicas, have also receded in price, having been pressed by the rapidly improving quality of Ceylon of the plantation kind. Mochas have been particularly steady.

Manilla Hemp.—Owing to heavy arrivals in the summer, which were generally brought into the market, and sold without reserve, experienced a great fall in the value, and sales were effected from 28*l.* to 30*l.* per ton: the market being now completely bare, a great advance has been obtained, the current value being 40*l.* to 42*l.* per ton.

Norton, Kilburn, and Co. *1st January,* 1848.

Raw Silk.—*Bengal.*—In the public sales in November but little business was done, the attendance of buyers being small, and a great indisposition shown by all parties to add to their engagements. * * * Since that period very little has been done, and the deliveries for the last two months show a considerable decrease as compared with the previous year.

China.—An active demand continued for China silk until the month of August; * * * but subsequent to that period prices gave way, owing to the disturbed state of the money market, and a consequent desire on the part of holders to effect sales.

Italian.—After the month of July, the demand was small, but uncertain, buyers not showing any disposition to add to their purchases more than was absolutely necessary, and the same feeling exists at the present time.

Haywood and M'Viccar. *Liverpool, 31st December*, 1847.

COTTON.—1847.—The quantity actually consumed (supposing spinners to hold 50,000 bales against 100,000 last year) falls short of that in 1846 by 431,000 bales, or an average weekly of 8,290 bales. * * * Throughout the whole of the year the complaints of spinners and manufacturers of the unremunerating state of business were general; so much so that some mills stopped working altogether, and many others reduced their working days by several hours. * * * The quantity of cotton purchased by consumers in the months of September, October, and November, only averaged 14,500 bales weekly, against 29,500 bales during the same period in 1846; and prices declined in this time 2¼*d.* per lb. December brought accounts of open and more favourable weather in the United States for the growing crop than those previously received, and so completed the discouragement which existed.

Cunningham and Hinshaw. *Liverpool, 31st December*, 1847.

COTTON.—Consistently with the progressive development of the difficulties of the year, a review of prices shows us that the highest obtainable rates were current in the month of January last. Still, under the influence of limited stocks and the expectation of small supplies, an arduous struggle was carried on between importers, speculators, and the trade, even to a period so late as the end of August, when it became apparent to *all* that the difficulties of manufacturers were too great to admit of any other course than a greatly reduced consumption. We consequently find that from this period prices continued, with but few alternations, gradually to decline until the end of November, a fall of 2½*d.* per lb. on the most current qualities of bowed and Orleans being submitted to, middling cotton of these descriptions being respectively quoted at 4⅛*d.* to 4¼*d.* and 4⅜*d.* to 4½*d.* per lb. From this point there has been in these qualities a rally of fully ¼*d.* per lb., the decline having induced a somewhat increased demand, and there appearing also no prospect of our receiving any but a very moderate supply for a month or two to come.

Hughes and Ronald. *Liverpool, 1st January*, 1848.

WOOL.—We are happy to say that we believe wool has suffered to a less extent than most of the raw materials of our leading manufactures, owing to the great caution displayed for a long time past. Prices are decidedly lower, say from 5 to 25 per cent. under the quotations of this date last year. The fall is most evident in Australian, Cape of Good Hope, Russian-*Merino*, and Buenos Ayres wools, which is partly attributable to the undue quantities brought at one time on the market at the London public sales. In domestic and some of the useful qualities of low foreign, as East India and Egyptian, the fall is less marked, and will range from 5 to 15 per cent. The entries of foreign and colonial wool into this port during the past year, although less in number of bales by 8,000 than during 1846, is fully equal in weight, the excess in Buenos Ayres more than compensating for the deficiency from the West Coast of South America.

Gibson, Ord, and Co. *Leeds*, 21 *Jan.* 1848.

"During the latter portion of the year the reduction in the price of home grown wool, suitable for the worsted trade, was from 10 to 15 per cent., the

clothing wools experiencing even a still greater decline, say from 20 to 30 per cent. This difference in the value of the produce of the home and foreign grower is to be accounted for, by the fact that the former, taking no account of interest, is enabled to hold his clip for a much longer period, during the rule of low prices, than his foreign rival, who from the pressure of interest and charges generally finds himself unable to hold his goods and compelled to throw them upon the market, even at a sacrifice, in order to escape further loss by accumulation. Accordingly we find that though the stock of home grown wool in the country is now more extensive than it was in January, 1847, yet the amount held by the manufacturers and dealers is considerably less: on the other the stock of foreign and colonial wool, suitable for clothing purposes, at present in the hands of the manufacturers is in a proportionable degree great.

M. J. Mahony. *London*, 1*st January*, 1848.

IRON.—In the early part of the year a considerable business in railway bars took place at from 9*l.* 5*s.* to 9*l.* 15*s* both for home and foreign supply; but towards the end of May it was evident a decline was about to take place, owing to the difficulty of many of the railway companies getting their proprietors to pay up their calls; this, followed by the pressure in the money market, brought the price in July and August last to 8*l.* 10*s.* to 8*l.* 15*s*; since which, the article has gradually declined to 7*l.* per ton at the works, although some of the makers will not sell under 7*l.* 10*s.* Bars, in Wales, owing to the principal ironmasters being fully employed on large orders for rails, commanded throughout the year almost as high a price as rails; in fact, at one period, higher prices were paid. The demand for bars, however, having been satisfied, the price has receded to about 7*l.* at the ports. Staffordshire bars, hoops, and sheets have maintained firm prices nearly throughout the year, and an extensive business has been done, notwithstanding the high rates for money: latterly, however, a great falling off has taken place in the demand, and the general opinion of those conversant with the market is, that a decline of 2*l.* per ton will take place on quarter-day next Foundry and forge pig iron were also in good demand throughout the year, but at present participate in the general dulness of the manufactured articles. As a matter of course, pig iron must fall in price as manfactured falls.

Scotch pig iron has been in great demand throughout the year, and the shipments large.

Thorburn and Co. *Glasgow*, 31*st December*, 1847.

IRON.—The consumption and exports of pig iron have exceeded the make by 60,000 tons. It is gratifying to remark that so large a quantity has been exported this year, exceeding the last, or any former period, by fully 30,000 tons. * * * The make this year has fallen off considerably; next year we may expect a further decrease, unless prices advance, as it is obvious that the present price will not pay the makers. It must be admitted that the home consumption this year has been less than the preceding, and this is accounted for, from the stoppage of a number of railways, &c.

TABLES OF PRICES OF PRODUCE OTHER THAN CORN.

THE tables of prices in continuation of those appended to the previous volumes of this work, have been compiled, for the first six years (1840—1845), chiefly from Prince's Price Current; and for the last two years from the Price Current of The Economist newspaper.

The prices are taken in the first weeks of January, April, July and November respectively, or at the periods nearest to those at which a quotation of the article in question could be found.

As the principal purpose of these tables is to afford a comparative view of the variations of prices during long periods of time, it is obviously desirable that uniformity should be preserved in the method of their compilation. The plan adopted for the tables appended to the second volume has therefore been strictly adhered to, wherever a deviation from it, however otherwise advisable, appeared likely to interfere with this uniformity. The exceptions are few, and are readily explained. Some articles, as, for instance, oil of the northern fishery, and Russian pearl ashes, have now ceased to be quoted in price currents, regularly, if at all. The tables as to these have, therefore, been discontinued, and others substituted, containing the prices of similar articles which appear to have displaced them in the market. Others, as tea and foreign sugars, being imported and sold under new conditions, corresponding changes have necessarily been made in the mode of stating their prices. And one or two tables have been discontinued, either because the article referred to (as bristles) is practically of no importance, or because, as in the instance of oil and whalebone of the northern fishery, it has ceased to appear in the market. The distinction between "superior" and "inferior" descriptions of coffee, and of one or two similar articles, has been abandoned, as it does not appear to be in any degree essential to the purpose in view, and is likely rather to mislead than to aid the general reader, referring, as it does to a standard of quality, (amply sufficient, no doubt, for cotemporary uses, but) for the uniformity of

which, during long periods of time, there is no adequate security.

In reference to the changes made in the import duties during the eight years over which these tables extend, it is necessary to observe that there was a general addition of 5 per cent. made to all the import duties, excepting those upon "corn, spirits, and timber and wood goods" (on which specific additional duties were imposed) from 15th May, 1840. In some instances, subsequent enactments, in dealing with the duties on particular articles, incidentally withdrew this addition. It is now applicable, however, to all those included in the following tables, excepting timber, spirits, and tallow; and in stating the rate of any particular duty for any period subsequent to May, 1840, the 5 per cent., and the resulting fractions, are taken into account.

14th Dec. 1847.

ASHES, Barilla, in Bond, per ton.

1840	9l @	9/10	8l @	9l	8l @	9l	10l @	10/5
1841	9/15	10l	9/15	10l	9/15	10/	9/15	10/
1842	9/15	10l	9/15	10l	9/15	10/	9/15	10/
1843	9/15	10l	9/15	10l	6/5		6/5	
1844	6/5		7/10	8/10	7/10	8/10	7/10	8/10
1845	7/10	8/10	7/10	8/10	7/10	8/10	7/10	8/10
1846	—		—		—		—	
1847	—		—		—		—	

Import Duties.

1842, July 9. Duty reduced.
B. P. from $2\frac{1}{10}d.$ to $1\frac{1}{20}d.$ per lb.—Foreign, from $8\frac{2}{5}d.$ to $2\frac{1}{10}d.$ per lb.
1845, March 19. Duty repealed.

ASHES, Canadian, Pearl, 1st sort, per cwt.

	s.	s.	s.	s. d.	s.	s. d.	s.	s.
1840	31/ @	32/	30/ @	30/6	30/ @	30/6	30/ @	31/
1841	30/	31/	27/6	28/	28/	29/6	32/6	33/
1842	32/6	33/	34/	34/6	34/	34/6	27/	28/
1843	27/	28/	32/	32/6	27/	29/	26/	
1844	28/	28/6	25/	26/6	27/	30/	26/	26/6
1845	26/		24/6	25/6	25/	26/6	22/9	23/
1846	24/	24/6	24/	24/6	24/	24/6	27/6	28/
1847	29/	29/3	29/3	29/6	30/	31/	37/6	38/

COFFEE, British Plantation, in Bond, (including Jamaica, Demerara, Berbice, Dominica, St. Lucia, and Ceylon), per cwt.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	86/ @	155/	84/ @	160/	81/ @	150/	74/ @	135/
1841	69/	135/	62/	128/	65/	150/	62/	147/
1842	47/	144/	43/	118/	40/	148/	32/	140/
1843	32/	135/	32/	135/	32/	135/	38/	150/
1844	30/	150/	34/	156/	19/	133/	18/	132/
1845	18/	132/	13/	130/	16/	127/	16/	142/
1846	25/	130/	25/	120/	25/	115/	25/	115/
1847	25/	115/	25/	115/	25/	128/	25/	128/

1842, July 9. Duty reduced from $6\frac{3}{10}d.$ to $4\frac{1}{5}d.$, per lb.

COFFEE, St. Domingo, in Bond, per cwt.

	s. d.	s.	s. d.	s.	s. d.	s.	s.	s.
1840	46/6 @	52/	46/6 @	52/	43/6 @	49/	42/ @	47/
1841	42/	47/	42/6	45/	41/6	46/	40/	46/
1842	40/	46/	40/	46/	31/	34/	31/	34/
1843	31/	34/	28/	33/	28/	33/	28/	33/
1844	26/	30/	31/	34/	29/	33/	26/	34/
1845	26/	34/	26/	32/	28/	32/	31/	35/
1846	31/	35/	29/	34/	28/	32/	28/	32/
1847	28/	32/	28/	32/	28/	32/6	27/	30/6

Import Duties.

1842, July 9. Duty on Foreign Coffee reduced from 1s. 3¼d. to 8⅔d. per lb.
1844, June 6. Duty further reduced to 6$\frac{3}{10}$d. per lb.

COCHINEAL.

	s. d.	s. d.	s. d.	s. d.	s. d.	s. d	s. d.	s. d.
1840	4/9 @	7/6	4/6 @	7/0	4/3 @	7/6	4/ @	6/8
1841	3/10	6/	3/10	6/3	3/9	6/3	3/9	6/3
1842	3/6	6/3	3/4	6/	3/	5/6	3/8	6/
1843	4/2	6/6	3/10	6/4	3/9	6/	4/	6/1
1844	3/11	6/	4/4	6/3	4/4	6/	4/1	5/9
1845	4/5	5/11	4/8	6/3	4/11	6/5	5/3	7/3
1846	5/3	7/2	5/2	7/2	5/1	6/6	4/5	6/9
1847	5/3	6/9	5/8	7/3	4/9	5/9	4/	6/7

1839, Jan. 5. Duty reduced from B. P. 2s. per lb. Foreign 6s., to 1s. per lb. on all.
1845, March 19. Duty repealed.

COPPER, British, in Cakes, per ton.

1840	94l		96l @	97l	92l		95l	
1841	97l		98l		98l		98l @	99l
1842	96l @	98l	95l		90l		84/10/	
1843	84l	85l	82l		82l @	83l	83l @	84l
1844	85l		84/10/	85l	82/10/	83	84l	
1845	84l		84l		88/10/		93l	
1846	93l		93l		93l		88/10	
1847	88/10/		98/		98/0		98/	

COTTON WOOL, Demerara, per lb.

1840	8d @	13d	8½d		7d @	11d	7d @	11d
1841	9¼d	11¾d	9¼d @	11¼d	9½d	10d	9½d	10d
1842	9½d	10d	6¼d	9½d	6	8½d	6d	8½d
1843	6d	8½d	5d	7½d	5d	7d	5d	7d
1844	5d	7d	5¼d	7½d	5d	7¼d	5d	7½d
1845	4¾d	7d	4¾d	7¼d	4¾d	7½d	5½d	9d
1846	5½d	7½d	5½d	7½d	5½d	7½d	5¼d	7½d
1847	5¾d	7½d	7	10d	6¼d	9d	6½d	9d

Down to the 19th of March 1845, the duties on cotton wool were,
B. P. - - 4⅜d per cwt.
Foreign - 3s. ⅜d. —
They were then repealed.

COTTON WOOL, Bowed Georgia, per lb.

1840	5¾d @	7¾d	5d @	6½d	4¾d @	6½d	5d @	6⅝d
1841	5½d	7d	6½d	7⅜d	5¼d	7¼d	5d	6½d
1842	4½d	6d	4d	6¼d	3½d	6⅛d	4d	6¼d
1843	4d	6d	3¼d	5½d	3¾d	5¾d	3¾d	5¾d
1844	4⅜d	5¾d	5d	6d	4¼d	6½d	3½d	5¼d
1845	3¼d	4¾d	3¼d	5d	3½d	5d	3½d	5d
1846	3⅜d	5d	3½d	5d	3¾d	5½d	4⅜d	6¼d
1847	6d	8d	5½d	7d	5⅞d	7⅝d	5d	6¼d

COTTON WOOL, East India (Bengal, Madras and Surat,) per lb.

1840	4⅜d @	6⅞d	4d @	5¼d	3¾d @	4⅞d	3⅜d	5¼d
1841	4¼d	5¼d	4¼d	5⅜d	3⅞d	5¼d	3⅜d	5⅛d
1842	3¼d	5½d	3½d	4½d	2⅞d	4⅛d	3⅛d	4½d
1843	3½d	4½d	3⅜d	4¾d	2¾d	4d	3d	4½d
1844	3d	4½d	3d	4¼d	2⅞d	4⅝d	2½d	4⅜d
1845	2⅝d	4d	2⅜d	4d	2½d	3¾d	2¼d	4¼d
1846	2½d	3⅞d	2½d	3¾d	2¾d	4d	3¼d	5d
1847	4d	5½d	3⅜d	5¼d	4⅛d	5⅝d	3½d	4⅛d

COTTON WOOL, Pernambuco, per lb.

1840	9d @	10d	8¼d @	9¼d	8¼d @	9½d	8¾d @	9¼d
1841	8½d	9½d	8½d	9¼d	8d	9¼d	8d	9¼d
1842	8d	9¼d	6¾d	7¼d	6½d	7¼d	6½d	7¼d
1843	6¼d	7¼d	6¼d	7¼d	5¼d	6¼d	5¾d	6¾d
1844	5¾d	6½d	5¾d	6¾d	5½d	6¼d	5d	6¼d
1845	4¾d	6d	5¼d	6¼d	5¼d	6¼d	6d	7¼d
1846	5½d	6¼d	5½d	6¼d	5¼d	6¾d	6d	7d
1847	6d	7d	7d	8d	7d	8d	7¼d	8¼d

FLAX, St Petersburg, 9 head, per ton.

1840	38*l* @ 40*l*	35*l* @ 42*l*	35*l* @ 42*l*	35*l* @ 42*l*
1841	35*l* 42*l*	35*l* 42*l*	No quotn.	No quotn.
1842	No quotn.	No quotn.	—	—
1843	—	—	—	—
1844	33*l* 34*l*	34*l* 35*l*	No quotn.	No quotn.
1845	No quotn.	No quotn.	—	—
1846	No quotn.	—	—	—
1847	—	—	—	—

Import Duties.

1845. March 19. The duty ($1\frac{1}{20}d.$ per cwt., colonial and foreign) was repealed.

HEMP, St. Petersburg, clean, per ton.

	£ £	£	£ £	£ £
1840	36/ @ 36/10	36/	36/10	40/10 @ 41/
1841	39/ 39/10	38/10 @ 39*l*	38/10 @ 39/	36/
1842	36/10	33/15/ 34/	32*l* 32/10	31/10
1843	31/10	31/ 31/10	29/10 30/	29/
1844	29/	33/	29/ 30/	27/
1845	27/5 @ 27/7/6	28/5 28/10	29/10	30*l* 30/10
1846	30/ 30/5	31/10 32/	31/	36/10 36/15
1847	37/15 38*l*	37/	41/ 41/10	37/

1845. March 19. The duty ($1\frac{1}{20}d.$ per cwt., colonial and foreign) was repealed.

INDIGO, East India (Bengal, Oude, and Madras), per lb.

	s. *s. d.*	*s. d.* *s.*	*s. d.* *s. d.*	*s.* *s. d.*
1840	3/ @ 9/8	2/9 @ 9/	2/6 @ 9/5	2/ @ 9/2
1841	2/ 9/6	2/ 8/6	2/ 8/9	1/6 8/
1842	1/6 8/	1/6 7/6	1/6 7/6	2/ 7/6
1843	2/6 8/3	2/6 8/	2/2 7/6	1/9 6/6
1844	1/6 5/9	2/2 6/	2/2 6/6	2/4 5/10
1845	2/4 5/10	2/3 5/10	2/ 6/	1/8 6/8
1846	1/10 5/	1/9 5/7	1/4 6/	1/8 6/4
1847	1/8 6/4	2/ 6/10	1/8 6/2	1/ 5/6

1842. July 9. The duty on indigo B. P. was reduced from 1*l.* 9*s.* $4\frac{4}{5}d.$ to 1*s.* $0\frac{3}{5}d.$ per cwt., and Foreign from 1*l.* 19*s.* $2\frac{3}{5}d.$ to 2*s.* $1\frac{1}{5}d.$ per cwt.

1845. March 19. Duty repealed.

IRON, British, bars, per ton.

	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*
1840	9 15 0 @ 10 0 0	8 15 0	8 5 6	8 10 0
1841	8 5 0	7 17 6	7 0 0 @ 7 5 0	6 15 0
1842	6 15 0	6 5 0	5 10 0	5 10 0
1843	5 5 0	5 2 6	4 10 0	5 2 6 @ 5 5 0
1844	4 15 0	5 10 0 @ 5 15 0	6 0 0 @ 6 5 0	5 15 0 @ 6 0 0
1845	7 5 0 @ 7 10 0	10 10 0	8 10 0 @ 8 15 0	9 15 0 @ 10 0 0
1846	9 15 0 @ 10 0 0	9 0 0 @ 9 5 0	9 0 0	10 0 0
1847	10 0 0	10 0 0	9 15 0	9 15 0

IRON, Archangel.

	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*
1840	- -	14 10 0	- -	14 10 0
1841	14 10 0	14 5 0	14 0 0	14 10 0
1842	14 10 0	14 0 0	13 0 0	13 0 0
1843	13 5 0	13 5 0	No quotn.	13 0 0
1844	13 0 0	12 0 0	—	No quotn.
1845	No quotn.	No quotn.	—	—
1846	—	—	—	—
1847	—	—	—	—

1845. March 19. The duties on bloom iron, iron in bars unwrought, old, broken and cast iron, and pig iron, were repealed.

The duty previously, on iron, in bars, unwrought, was 1*l.* 2*s.* $0\frac{8}{10}d.$ per ton.

A general duty is retained on "iron and steel, wrought, not otherwise enumerated," of 10 per cent. ad valorem, B. P. and Foreign.

	IRON, Swedish (in bond), per ton.				Import Duties.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	
1840	13 0 0 @ 13 10 0	13 0 0 @ 13 15 0	12 0 0	12 10 0	
1841	13 5 0 @ 13 10 0	14 5 0 @ 14 10 0	12 0 0	11 15 0 @ 12 5 0	
1842	13 0 0	12 0 0 @ 12 10 0	12 0 0	11 0 0	
1843	11 5 0 @ 11 10 0	10 10 0	9 10 0 @ 10 0 0	11 10 0	
1844	10 0 0 @ 10 10 0	9 5 0 @ 9 10 0	9 10 0	9 10 0 @ 9 15 0	
1845	9 15 0 @ 10 10 0	12 5 0	12 0 0	12 0 0	
1846	12 0 0	11 10 0	11 0 0 @ 11 10 0	11 0 0	
1847	11 15 0	11 15 0 @ 12 0 0	11 15 0 @ 12 0 0	11 5 0 @ 11 10 0	

	LEAD, British, in Pigs, per ton.				Import Duties.
	£	£	£	£	
1840	17/12/6 @ 17/15	17/10	18/	19/5	
1841	20/5	20/5	20/ 20/5	20/5	
1842	19/15	19/ 19/5	18/ 18/10	17/ @ 17/5	
1843	17/	17/	16/ to 16/10	17/	
1844	17/10	17/	16/10 17/	16/10	
1845	16/15	16/15	19/ 19/10	19	
1846	19/10	19/10 @ 19/12/6	19/	18/10 @ 18/15/	
1847	18/10	18/15	18/15	18/5 @ 18/15	

	LOGWOOD, Jamaica, per ton.				Import Duties.
	s. s.	s. s.	s. s.	s. s.	
1840	165/@185/	165/@180/	160/@165/	135/ @ 150/	Duty (2s. 2½d. per ton) repealed 19th March, 1845.
1841	135/ 150/	130/ 140/	120/ 127/6	105/ 120/	
1842	90/ 105/	90/ 100/	90/ 100/	90/ 100/	
1843	90/ 100/	90/ 105/	100/ 105/	90/ 100/	
1844	100/ 105/	105/ 107/6	95/ 107/6	100/ 105/	
1845	100/ 105/6	100/ 105/	100/ 105/	97/6 100/	
1846	95/ 106/	95/ 107/6	85/ 90/	85/ 90/	
1847	85/ 90/	90/ 100/	85/ 95/	80/ 85/	

	OIL, fish, per tun of 252 gallons.				Import Duties.
1840	25l @ 31l	24l @ 29l	24l @ 28/10	26l @ 31l	1843. July 5. The duty on *spermaceti* oil of foreign fishing was reduced from 27l. 18s. 7½d. to 15l. 15s. 0d. per tun. And on train oil of foreign fishing from 27l. 18s. 7½d. to 6l. 6s. 0d. per tun.
1841	27l 33l	25/15 31/10	27l 32l	29/10 40l	The duty on train oil ceased 1st January, 1847; and that on spermaceti oil will cease 1st January, 1849.
1842	30/10 42/10	28l 40l	31/10 37/10	34/10 41/10	
1843	32l 41l	32l 39l	30l 38/10	33/10 39/5	
1844	32l 36/15	31l 32l	30l 36l	29l 35l	
1845	29l 34l	27l 30l	28l 31/10	26l 30l	
1846	26/10 27l	28l 28/10	28l 28/10	27/15 28l	
1847	27/10 27/15	27 27/10	27/10 27/15	26/10 27l	

OIL, Southern fishery, per tun.

1840	24*l* @	26*l*	24*l* @	25*l*	23/5 @	24/10	23*l* @	26*l*
1841	26*l*	30*l*	26*l*	29*l*	24*l*	26/10	32*l*	36/5
1842	32*l*	36*l*	32*l*	34*l*	30*l*	35*l*	37*l*	43*l*
1843	37*l*	41*l*	35/10	39*l*	30/10	33/10	34*l*	38*l*
1844	34*l*	37*l*	31/10	32*l*	30	33/10	27/10	33*l*
1845	27/10	33*l*	25/10	29*l*	26*l*	28*l*	24*l*	26*l*
1846	24/10	28*l*	24*l*	26/10	23*l*	24/10	28*l*	31*l*
1847	28*l*	31*l*	27/10	29/10	24/10	26/10	24*l*	26/15

OIL, Galipoli, duty paid, per tun, of 252 gallons.

1840	60*l* @	61*l*	63*l* @	64*l*	60*l* @	62*l*	64*l* @	65*l*
1841	65*l*	66*l*	67*l*		67*l*		80*l*	84*l*
1842	70*l*	72*l*	58*l*	59*l*	56*l*		55*l*	
1843	52*l*	54*l*	48*l*		44*l*	44/10	45*l*	
1844	45*l*		49/10	50*l*	47/10		43*l*	44*l*
1845	42*l*	43*l*	42*l*	43*l*	40*l*		41*l*	
1846	41*l*	41/10/	39/10	40*l*	37*l*	38*l*	46*l*	47*l*
1847	48/10	49*l*	54*l*	55*l*	47*l*	48*l*	45/10	46*l*

Import Duties.

Oil Galipoli.

1841. Dec. 10. Duties reduced as under:—

	From	To
	£ *s. d.*	£ *s. d.*
Of and from the dominions of the King of the Two Sicilies, per tun	8 8 0	4 4 0
Ditto, in a ship belonging to any of the subjects of the King of the Two Sicilies.	10 10 0	6 6 0
Otherwise imported	4 4 0	4 4 0

1842. July 9th. The second above-mentioned duty was farther reduced from 6*l.* 6*s.* 0*d.* to 4*l.* 4*s.* 0d.; and on 9th May, 1845, was repealed. At the same date, the last-mentioned duty was farther reduced from 4*l.* 4*s.* 0*d.* to 2*l.* 2*s.* 0*d.*; and on 19th March, 1845, was repealed.

PEPPER, Black, sifted, in Bond, per lb.

1840	4*d* @	4¾*d*	4*d* @	4¾*d*	3¾*d* @	4⅝*d*	3⅝*d* @	4⅛*d*
1841	3⅝*d*	4⅛*d*	3⅛*d*	4¾*d*	3⅛*d*	4⅛*d*	3⅛*d*	4⅛*d*
1842	3⅛*d*	4*d*	3¼*d*	4⅝*d*	3¼*d*	4⅝*d*	3*d*	3¾*d*
							(Malabar)	
1843	3¼*d*	4¼*d*	3¼*d*	4¼*d*	3¼*d*	4¼*d*	3*d* @	3¾*d*
1844	3*d*	4*d*	3¼*d*	4*d*	3*d*	4*d*	3*d*	4*d*
1845	2⅞*d*	3¾*d*	3*d*	3⅝*d*	3*d*	3¾*d*	3*d*	3⅛*d*
1846	3⅛*d*	3¼*d*	2⅞*d*	3¼*d*	2⅞*d*	3¼*d*	2⅝*d*	3¼*d*
1847	2⅞*d*	3⅛*d*	2⅞*d*	3⅛*d*	2⅞*d*	3⅛*d*	2⅝*d*	3*d*

B. P., 3$\frac{3}{20}$*d.* per lb.
Foreign, 6$\frac{3}{10}$,,

PROVISIONS, Butter, Waterford, per cwt.

	s.	*s.*	*s.*	*s.*	*s.*	*s.*	*s.*	*s.*
1840	88/ @	92/	90/ @	94/	90/ @	95/	94/ @	98/
1841	98/	104/	90/	96/	88/	92/	92/	95/
1842	86/	93/	64/	76/	84/	88/	74/	78/
1843	65/	76/	64/	80/	74/	77/	66/	75/
1844	62/	72/	56/	70/	72/	74/	78/	86/
1845	90/	96/	88/	95/	76/	79/	88/	93/
1846	88/		78/		84/	86/	89/	91/
1847	86/	88/	84/	86/	No quotn.		No quotn.	

PROVISIONS, Prime Mess Beef, per tierce of 304 lbs.

	s. d.		*s. d.*	*s.*	*s.*	*s. d.*	*s. d.*	
1840	122/6		127/6 @	130/	140/ @	142/6	130/6	
1841	132/6		132/6	115/	127/6		126/ @	125
1842	132/6 @	135/	126/6	127/6	117/6	120/	107/6	
1843	105/	107/6	100/	102/6	95/	100/	82/6	
1844	82/6	85/	100/		82/6		95/	
1845	95/		90/		90/			
1846	No quotn.		No quotn.		No quotn.		No quotn.	
1847	—		—		—		—	

SALTPETRE, Rough in Bond, per cwt.

	s. d.	*s.*	*s. d*	*s.*	*s. d.*	*s.*	*s.*	*s.*
1840	28/6 @	27/	23/6 @	28/	25/6 @	28/	26/ @	28/
1841	26/	29/6	27/	29/6	25/	28/6	26/	28/6
1842	26/	28/	26/	29/	25/6	28/6	28/	28/6
1843	25/	28/6	24/	28/	22/6	27/	24/6	27/6
1844	23/6	26/6	23/6	27/6	22/6	26/6	23/	27/
1845	24/6	27/6	24/	27/6	23/	27/	25/	27/6
1846	23/	28/	23/	27/	23/6	27/6	23/6	27/6
1847	23/	27/6	24/	29/	27/	35/	25/2	9/6

1845, March 19. Duty (6$\frac{3}{10}$*d.* per cwt., B. P. and Foreign) repealed.

SILK, East India, Raw, per lb.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	14/ @	22/	14/ @	22/6	12/ @	21/	11/6 @	20/
1841	10/6	19/6	10/6	19/	10/	18/6	9/	21/
1842	9/	19/	9/6	19/	8/	19/	8/6	18/6
1843	8/6	18/	9/	18/	7/9	18/	10/	20/
1844	9/6	20/	9/6	20/	8/6	20/	8/6	20/
1845	8/6	19/	8/	18/	8/	18/	9/	19/6
1846	8/6	18/	8/6	18/	8/	17/	8/	17/
1847	8/	17/	6/6	15/	6/6	15/	6/6	15/

Import Duties.

1845. March, 19. Duty ($1\frac{1}{20}d.$ per lb., B. P. and Foreign) repealed.

SILK, China, Raw, per lb.

	s. d.	s. d.	s. d.	s.	s.	s.	s.	s.
1840	22/6 @	26/6	23/6 @	28/	22/ @	28/	21/ @	26/
1841	19/	25/	19/	23/6	19/	22/6	17/6	21/6
1842	16/	22/	17/	22/	17/	21/6	17/6	23/6
1843	17/	22/6	18/	22/	13/	21/6	15/	24/
1844	15/	24/	18/	25/	16/	23/	16/	23/
1845	16/	22/	14/	19/6	13/6	19/	13/6	21/
1846	15/6	19/	15/	18/	14/6	19/	13/6	18/
1847	12/	18/	10/	16/6	11/	17/6	10/6	16

SILK, Italian, Raw (all descriptions), per lb.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	18/ @	33/	18/ @	33/	18/ @	33/	18/ @	33/
1841	18/	33/	18/	33/	12/	26/	13/6	26/
1842	13/6	26/	13/6	26/	12/	26/	11/	26/
1843	16/	24/	13/	22/	13/	22/	15/	27/
1844	15/	27/	15/	28/	15/	26/	15/	26/
1845	15/	32/	14/	30/	14/	30/	15/	31/
1846	20/	30/	20/	30/	18/	26/6	18/	25/
1847	18/	25/	17/	24/	17/	23/	15/	20/

SPICES, Cinnamon, Ceylon (first quality in Bond), per lb.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	6/3 @	7/10	6/3 @	7/10	6/ @	7/8	6/4 @	7/9
1841	6/4	7/9	6/4	7/9	6/4	7/1	6/4	7/1
1842	6/4	7/1	6/	6/10	6/	6/10	6/	7/6
1843	6/6	7/6	6/6	7/6	6/6	7/6	6/	7/
1844	6/	7/	4/5	6/7	4/6	6/2	3/8	5/5
1845	3/8	5/5	3/	5/	3/	4/10	2/6	4/6
1846	3/2	4/6	3/2	4/6	3/2	4/7	4/	5/
1847	4/	5/	4/	5/	3/6	4/9	3/2	4/10

B. P., $3\frac{3}{20}d.$ per lb.
Foreign, $6\frac{3}{10}d.$ „

SPIRITS, Rum, Jamaica (10° to 20° O. P.) per gall.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	-	-	-	-	-	-	5/1 @	5/2
1841	5/ @	5/1	4/11 @	5/	3/11 @	4/1	4/	4/2
1842	4/	4/2	4/	4/2	-	-	-	-
1843	-	-	-	-	-	-	-	-
1844	-	-	2/6	2/9	2/6	2/9	2/9	2/10
1845	-	-	2/5	2/6	2/6	2/7	2/5	2/9
1846	2/10	3/1	2/6	2/10	2/10	3/1	2/10	3/3
1847	3/3	3/6	4/6	5/	3/6	4/	3/2	3/6

1847. July 22. Duty B. P. reduced from 8s. 10d. to 7s. 10d. per gallon
Foreign 15s. 4d. per gallon.

STEEL, Swedish, per keg.

	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
1840	19	0	0	19 @ 19	5 10	0 0	18	0	0	18	10	0
1841	19	0	0	20	0	0	18 @ 23	15 10	0 0	18	10	0
1842	19	0	0	18	10	0	18	0	0	17	10	0
1843	18	0	0	17 @ 18	10 0	0 0	16 @ 16	5 10	0 0	17 @ 18	10 0	0 0

See "IRON" (antè).

STEEL, Swedish, per keg (continued).

	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1844	16 10 0 @ 16 15 0	18 0 0 @ 18 0 0	16 0 0 @ 16 10 0	15 10 0
1845	16 0 0	17 10 0 @ 18 0 0	15 10 0 @ 20 0 0	15 15 0
1846	16 0 0	15 10 0	14 10 0	14 10 0
1847	15 0 0 @ 15 5 0	15 5 0 @ 15 10 0	15 5 0 @ 15 10 0	14 10 0

Import Duties.

SUGAR, Muscovados, in bond (Gazette average), per cwt.

	s.	s.	s.	s.
1840	37/7	40/	56/	57/4
1841	50/10¾	43/9	35/2¼	34/4¼
1842	37/4	38/0¼	37/9¼	36/4¼
1843	31/1¾	32/1¼	35/11½	33/5¼
1844	35/2	34/10	32/3¾	31/0¾
1845	33/0¼	29/11¾	31/10	38/1
1846	35/4¾	35/5¾	34/6¼	34/2¾
1847	33/10	34/4	27/1½	22/9

SUGAR, East India (Bengal, duty paid), per cwt.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	59/ @	70/	61/ @	73/	76/ @	87/6	80/ @	89/
1841	67/	87/	62/	73/	54/6	72/	53/	73/6
1842	55/	74/	56/	71/6	55/	70/	56/	70/6
1843	55/	69/	54/	67/	54/	68/	55/	67/6
1844	55/	69/	55/	68/	55/6	67/	52/6	70/
1845	52/6	70/	48/6	59/6	48/6	58/6	52/	61/
1846	32/	57/6	34/6	55/	33/	53/	33/6	55/6
1847	38/	55/	39/	54/	34/	52/	30/	50/

1845. March 14. Duty on British colonial sugars reduced from 1*l*. 5*s*. 2⅜*d*. per cwt. to —
If equal to white clayed 16*s*. 4*d*. per cwt.
If not equal, 14*s*. per cwt.

SUGAR, Havana, white, in bond, per cwt.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	38/ @	43/	34/ @	40/	33/ @	40/	30/ @	36/
1841	30/	36/	30/	33/	26/	33/	24/	33/
1842	24/	28/	24/	32/	25/6	30/	27/6	36/
1843	26/	35/	26/	35/	26/	35/	23/	32/
1844	23/	31/	25/	32/	23/	32/	25/	32/
1845	25/	32/	25/	35/	32/	40/	32/	40/
							Duty paid*	
1846	35/	39/	25/	30/	28/	31/	53/6	56/
1847	53/6	56/	54/	58/	49/	53/	46/	51/

* Sugar from Havana was first admitted for consumption in the United Kingdom, at a duty less than prohibitory, by the act 9 & 10 Vict. c. 63. (18th August, 1846.)

1845. March 14. Duty reduced incidentally from 3*l*. 6*s*. 1⅜*d*. to 3*l*. 3*s*. per cwt.
1846. August 18. Havana sugar classed with all other foreign sugars: —
Duty from 18th August 1846 to 5th July 1847.
If equal to white clayed, 1*l*. 4*s*. 6*d*. per cwt.
If not equal, 1*l*. 1*s*. per cwt.
From 5th July 1847 to 5th July 1848.
If equal to white clayed, 1*l*. 3*s*. 4*d*. per cwt.
If not equal, 1*l*. per cwt.

TALLOW, Russian candle, per cwt.

	s.	s.	s.	s.
1840	50/6	53/6	53/6	50/
1841	48/	48/	49/	49/
1842	50/6	48/	50/	50/6
1843	49/6	44/6	42/6	43/6
1844	43/	42/6	43/	43/
1845	42/6	40/6	42/	44/
1846	43/ @ 43/6	42/6 @ 42/9	41/9 @ 42/	48/6 @ 49/
1847	51/3 51/6	50/6 50/9	48/9 49/	44/6 45/

1846. March 18. Duties reduced
Foreign, from 3*s*. 2*d*. to 1*s*. 6*d*. per cwt.
B. P. From 3*d*. to 1*d*. per cwt.

TAR, Stockholm, per barrel.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	17/6		18/6 @	19/	24/		22/	
1841	23/		22/6		17/6		18/	
1842	18/ @	18/6	17/	17/3	15/6		15/6	
1843	14/	14/6	14/6		13/6		11/6 @	12/
1844	11/6	14/	11/9		12/		15/6	16/
1845	17/		16/6	17/	13/		17/	
1846	15/6	16/	16/	16/6	16/ @	16/6	16/	16/6
1847	17/3	17/6	17/3	17/9	17/3	17/6	17/3	17/6

Import Duties.

1842. July 9th. Duties reduced. Foreign from 15s. 9d. to 2s. 7½d. per last.

B. P. from 12s. 7½d. to 6$\frac{3}{10}$d. per last.

1845. March 19. Duties repealed.

TEA, Congou, per lb.

	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
1840	2/4 @	3/4	2/2 @	2/6	1/11¾ @	2/5	2/3¾ @	2/10
1841	1/8	2/3	1/8	2/7	2/3	3/	1/10	3/2
1842	1/10	2/10	1/10	2/9	1/8	2/6	1/6½	2/4
1843	1/1½	2/3	1/2½	2/1	1/	2/1	10¾d	2/4
1844	10½d	2/4	1/	2/5	10½d	2/5	10¾d	2/6
1845	11d	2/6	10d	2/9	9½d	2/6	8½d	2/4
1846	9d	2/3½	8d	2/	9d	2/	8d	2/
1847	8d	2/2	8d	2/2	8½d	2/2	8d	1/6

2s. 2¼d., per lb.

TEA, Hyson, per lb.

	s.	s. d.	s. d.	s.	s. d.	s. d.	s. d.	s. d.
1840	3/ @	6/6	2/6 @	6/	2/3¾ @	6/1½	2/5 @	7/6
1841	2/2	6/2	2/	5/11	2/4	3/8	1/11	3/3
1842	1/10	3/2	1/10	3/2	2/1	4/6	2/	4/6
1843	1/11	4/	1/9	4/0	1/6	3/9	1/8	4/3
1844	1/8	4/3	1/8	4/3	2/3	5/	2/5	4/10
1845	2/6	4/10	2/6	5/	2/	5/	1/10½	4/10
1846	1/10	4/0	1/10	4/	1/10	3/6	1/8	3/6
1847	1/6	3/6	1/4	3/6	1/2	3/6	1/	3/2

TIMBER, Dantzic and Memel Fir, per load.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	102/6 @	110/	102/6 @	110/	102/6 @	110/	102/6	110/
1841	102/6	110/	102/6	110/	102/6	110/	97/6	105/
1842	97/6	105/	102/6	112/6	100/	105/	85/	92/6
1843	85/	92/6	85/	92/6	80/	92/6	80/	92/6
1844	80/	92/6	75/	87/6	75/	87/6	77/6	90/
1845	86/	90/	80/	90/	75/	90/	80/	90/
1846	80/	90/	80/	90/	80/	90/	80/	90/
1847	80/	90/	80/	90/	80/	90/	80/	90/

TIMBER, Quebec Yellow Pine, per load.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	85/		85/		85/		80/ @	95/
1841	80/ @	95/	80/ @	95/	80/ @	95/	80/	95/
1842	80/	95/	80/	95/	80/	95/	55/	65/
1843	55/	65/	55/	65/	55/	65/	55/	65/
1844	55/	65/	62/6	67/	62/6	67/	70/	
1845	75/	80/	80/		80/		70/	80/
1846	70/	80/	70/	80/	70/	80/	70/	80/
1847	70/	80/	70/	80/	70/	80/	70/	80/

The duties on the importation of timber were slightly increased from 15th May 1840, and were materially altered, and the mode of levying them changed, from the 10th of October 1842; and a further reduction of the duties took place from 10th October 1843. The details of these changes are too complicated for insertion here, but may be found in the Parliamentary Returns, Commons, No. 262, Session 1842, and No. 417, Session 1846.

The principal duties, covering by far the greater part of the timber imported, were from October 1843, to April 1847.

	£	s.	d.
On timber sawn or split—			
Of British possessions in America, per load	0	2	0
Other parts	1	12	0
Not sawn or split—			
Of British possessions	0	1	0
Other parts	1	5	0

The duties on *foreign* timber were further altered in the Session of 1846, as under:—

After 5th *April*, 1847.

	£	s.	d.
On timber sawn or split per load	1	6	0
Not sawn or split	1	0	0

After 5th *April*, 1848.

	£	s.	d.
On timber sawn or split per load	1	0	0
Not sawn or split	0	15	0

TIN, English, in Bars, per cwt.

	s.	s.	s.	s.	s.	s.	s.	s.
1840	80/ @	80/6	82/ @	82/6	82/ @	82/6	88/	
1841	84/		84/6		82/	84/6	80/ @	80/6
1842	77/		73/6		70/	71/	67/	68/
1843	66/	67/	64/6		62/		65/	
1844	71/		74/	74/6	73/6		73/	74/
1845	72/		80/	82/6	90/	90/6	101/	101/6
1846	104/6		101/		93/6		96/0	
1847	99/6		99/6		89/6		86/10	

									Import Duties.
TOBACCO, Virginia, in bond, per lb.									
1840	4½d @	11½d	3½d @	10½d	3½d @	7d	3½d @	7d	3s. 1½d. per lb.
1841	3½d	7½d	3½d	7½d	4d	7d	3½d	6½d	
1842	2½d	5½d	2½d	5½d	2½d	5½d	2½d	5½d	
1843	2½d	5½d	2½d	5½d	2½d	5½d	2½d	5½d	
1844	2d	5½d	2d	5d	2d	5d	2d	5d	
1845	2d	5d	2d	5d	2d	5d	1½d	5d	
1846	2½d	5½d	2½d	5½d	2½d	5½d	2½d	5½d	
1847	2½d	5½d	2½d	5½d	2½d	5½d	2½d	5½d	
WHALEBONE, South Sea, per ton.									
1840	129l @	140l	120l @	130l	112l @	120l	130l @	140l	
1841	150l		125l	150l	130l		145l	150l	
1842	175l	180l	170l	178l	170l	178l	200l	240l	
1843	240l	245l	245l		220l	228l	260l	280l	
1844	350l		270l	280l	205l	215l	250l		
1845	250l		215l	220l	240l	250l	200l	204l	
1846	—		—		—		—		
1847	—		—		—		—		3
WOOL, Sheeps', Spanish, Leonesa, per lb.									
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	
1840	2/1 @	2/8	2/1 @	2/8	2/1 @	2/6	2/1 @	2/6	1844. June 6th. Duties repealed. Duties previously:—
1841	2/1	2/6	2/1	2/6	2/	2/6	2/	2/6	£ s. d.
1842	2/	2/6	2/	2/6	2/	2/6	2/	2/6	Not being of the value of 1s. per lb. — 0 0 0$\frac{3}{40}$
1843	2/	2/6	2/	2/6	2/	2/6	2/	2/6	
1844	2/	2/6	2/	2/6	1/9	1/11	1/9	1/11	Of the value of 1s. and upwards — 0 0 1$\frac{1}{20}$
1845	2/9	3/1	2/9	3/1	1/5	1/11	1/9	1/11	
1846	2/	2/4	2/	2/4	1/8	2/	1/8	2/	
1847	1/8	2/	1/8	2/	1/8	2/	1/8	2/	

An Account of the Values of the Imports into, and Exports from, the United Kingdom, in the Years 1838 *to* 1846 *inclusive.*

Years.	Value of Imports into the United Kingdom, calculated at the Official Rates of Valuation.	Value of Exports from the United Kingdom, calculated at the Official Rates of Valuation.			Value of the Produce and Manufactures of the United Kingdom exported therefrom, according to the real or declared Value thereof.
		Produce and Manufactures of the United Kingdom.	Foreign and Colonial Merchandize.	Total Exports.	
	£	£	£	£	£
1838	61,296,513	92,453,967	12,711,512	105,165,479	50,061,737
1839	62,048,121	97,394,666	12,795,990	110,190,656	53,233,580
1840	67,492,710	102,706,850	13,774,165	116,481,015	51,406,430
1841	64,444,268	102,179,514	14,723,373	116,902,887	51,634,623
1842	65,253,286	100,255,380	13,586,422	113,841,802	47,381,023
1843	70,214,912	117,876,659	13,956,288	131,832,947	52,279,709
1844	75,449,374	131,558,477	14,398,177	145,956,654	58,584,292
1845	85,281,958	134,598,584	16,279,318	150,877,902	60,111,082
1846	75,953,875	132,288,345	16,296,162	148,584,507	57,786,876

An Account of the Quantities of the following Articles imported into the United Kingdom from 1838 *to* 1846 *inclusive.*

Years.	Cotton Wool.	Coffee.	Flax.	Hemp Undressed.	Sheep's Wool.	Silk, Raw and Waste.	Sugar, Raw.	Tallow.	Tea.	Tobacco Unmanufactured.
	lbs.	lbs.	cwts.	cwts.	lbs.	lbs.	cwts.	cwts.	lbs.	lbs.
1838	507,850,000	39,932,000	1,626,276	730,376	52,594,000	4,404,354	5,035,373	1,122,449	40,413,000	30,162,000
1839	389,396,000	41,003,000	1,223,701	995,693	57,379,000	4,788,738	4,678,219	1,330,528	38,158,000	35,605,000
1840	592,488,000	70,250,000	1,253,240	684,068	49,436,000	4,459,542	4,035,845	1,200,489	28,021,000	36,680,000
1841	487,992,000	43,317,000	1,346,843	652,165	56,170,000	4,734,755	4,908,018	1,242,553	30,787,000	43,935,000
1842	531,750,000	41,444,000	1,145,759	585,905	45,881,000	5,388,100	4,756,011	1,011,370	40,742,000	39,526,000
1843	673,193,000	38,942,000	1,437,150	735,743	49,243,000	4,964,203	5,020,569	1,171,618	46,612,000	43,755,000
1844	646,111,000	46,523,000	1,583,494	913,233	65,713,000	5,899,187	4,880,075	1,079,486	53,147,000	37,610,000
1845	721,979,000	50,377,000	1,418,323	931,850	76,813,000	5,816,327	5,820,890	1,194,284	51,056,000	32,944,000
1846	467,748,000	51,634,000	1,146,743	880,810	65,117,000	5,280,000	5,613,847	1,114,761	54,768,000	52.787,000

The Accounts of the Bank of England, from 1840 *to* 1847 *inclusive.*

In the following Table the four principal items of the accounts of the Bank, as published prior to September, 1844, are exhibited weekly for the whole period of eight years to which the present volume relates, with the exception of an interval of about six months, between March and September, 1844, the reason for which will be stated where it occurs.

In order to avoid the introduction of an unnecessary number of figures, as well as to afford additional facility of reference, five figures on the right hand of each item have been omitted, leaving the millions to stand as whole numbers, and the next figures as decimal parts of a million. For most purposes, requiring reference to the state of the Bank accounts in the past, the degree of accuracy thus attained will be found practically sufficient.

It may be necessary to observe that, throughout, the "circulation," includes the post bills.

Date.	Circulation.	Bullion.	Deposits.	Securities.
1840.	£	£	£	£
Jan. 7	15.5	4.5	14.5	28.4
14	17.8	4.4	9.3	28.5
21	18.1	4.5	8.0	24.6
28	17.7	3.9	7.6	24.2
Feb. 4	17.6	3.9	7.0	23.7
11	17.2	4.0	6.9	22.9
18	16.8	4.2	6.8	22.4
25	16.5	4.3	6.5	21.6
March 3	16.4	4.4	6.5	21.6
10	16.2	4.6	6.5	21.0
17	16.0	4.7	6.9	21.1
24	15.9	4.4	6.8	21.2
31	16.3	4.4	6.4	21.3
April 7	16.5	4.3	10.5	25.5
14	17.8	4.1	8.1	24.6
21	17.5	4.1	8.0	24.2
28	17.4	4.2	7.5	23.6
May 5	17.2	4.2	7.3	23.3
12	17.2	4.3	6.6	22.8
19	16.8	4.4	6.3	21.6

Date.	Circulation.	Bullion.	Deposits.	Securities.
1840.	£	£	£	£
May 26	16.8	4.5	6.0	21.1
June 2	16.7	4.5	6.1	21.0
9	16.4	4.6	5.9	20.5
16	16.2	4.7	6.3	20.5
23	16.0	4.8	6.9	20.9
30	16.6	4.8	7.2	21.9
July 7	16.4	4.6	14.2	28.9
14	18.1	4.4	9.1	25.9
21	18.2	4.4	8.3	25.
28	17.9	4.4	8.0	24.4
August 4	18.0	4.4	7.3	24.
11	17.5	4.3	7.3	23.5
18	17.4	4.3	6.8	22.8
25	17.1	4.2	6.2	22.
Sept. 1	16.9	4.2	6.1	21.7
8	16.8	4.2	5.9	21.4
15	16.9	4.2	5.8	21.4
22	16.4	4.	5.8	21.2
29	16.5	3.8	5.7	21.4
Oct. 6	16.5	3.5	5.5	21.5
13	17.2	3.3	8.6	25.3
20	16.8	3.	7.1	23.8
27	16.4	3.	6.6	22.8
Nov. 3	16.6	3.	6.2	22.4
10	16.1	3.1	6.1	21.9
17	15.9	3.3	5.8	21.7
24	15.9	3.5	5.6	20.8
Dec. 1	16.1	3.6	6.2	21.4
8	15.8	3.8	6.6	21.5
15	15.5	4.	7.3	21.5
22	15.4	4.	7.9	22.1
29	15.5	4.	8.4	22.8
1841.				
Jan. 5	15.6	4.	8.4	22.8
12	17.2	3.9	9.8	26.
19	17.3	3.9	8.1	24.6
26	17.1	3.9	7.6	23.7
Feb. 2	16.9	3.9	7.1	23.
9	16.6	4.	6.9	22.5
16	16.5	4.1	6.5	21.7
23	16.3	4.3	6.4	21.3
March 2	16.4	4.5	6.5	21.3
9	16.2	4.7	6.6	21.1
16	16.1	4.7	6.7	21.
23	15.9	4.9	6.1	20.1

Date.	Circulation.	Bullion.	Deposits.	Securities.
1841.	£	£	£	£
March 30	16.2	5.	6.2	20.4
April 6	16.4	5.	10.5	24.8
13	17.3	4.8	8.5	23.9
20	17.3	4.8	7.7	23.1
27	16.9	4.9	7.5	22.2
May 4	17.	4.9	7.2	22.1
11	16.7	5.	6.7	21.3
18	16.5	5.	6.6	20.9
25	16.5	5.1	6.6	20.7
June 1	16.4	5.2	6.3	20.3
8	16.3	5.2	6.3	20.3
15	16.2	5.3	6.7	20.5
22	15.9	5.4	6.3	19.7
29	16.3	5.4	6.3	20.1
July 6	16.5	5.3	14.7	28.9
13	18.2	5.	10.1	26.4
20	18.6	4.8	8.6	25.5
27	18.3	4.8	8.2	24.7
August 3	18.4	4.7	7.8	24.3
10	18.	4.7	7.6	23.9
17	17.6	4.7	7.2	23.2
24	17.5	4.8	7.	22.7
31	17.3	4.8	6.9	22.6
Sept. 7	17.	4.8	6.7	22.
14	16.9	4.8	6.5	21.7
21	16.9	4.7	6.4	21.6
28	17.1	4.6	6.6	22.3
Oct. 5	17.2	4.3	6.7	22.6
12	17.2	4.1	10.9	26.8
19	17.7	4.	8.	24.7
26	17.3	3.9	7.6	23.7
Nov. 2	17.5	4.	7.2	23.4
9	16.8	4.2	7.4	22.7
16	16.5	4.4	7.	21.9
23	16.3	4.7	6.9	21.4
30	16.4	4.8	6.8	21.2
Dec. 7	16.3	5.1	7.1	21.3
14	16.	5.4	7.7	21.2
21	15.8	5.6	8.4	21.5
28	15.7	5.6	8.8	21.9
1842.				
Jan. 4	16.1	5.6	9.	22.5
11	17.3	5.5	11.5	26.5
18	17.4	5.4	10.4	25.5
25	17.4	5.5	9.8	24.7

Date.	Circulation.	Bullion.	Deposits.	Securities.
1842.	£	£	£	£
Feb. 1	17.5	5.6	9.3	24.4
8	17.1	5.7	9.	23.7
15	16.9	5.9	8.6	22.8
22	16.9	6.1	8.2	22.1
March 1	16.9	6.4	8.	21.5
8	16.6	6.6	7.5	20.9
15	16.6	6.7	7.1	20.
22	16.3	7.	6.8	19.2
29	16.6	7.1	6.6	19.2
April 2	17.	7.	7.3	20.1
9	18.	7.	10.5	24.1
16	18.5	7.	9.3	23.4
23	18.5	7.1	8.7	22.7
30	18.5	7.2	8.7	22.6
May 7	18.2	7.2	8.1	21.8
14	18.	7.3	7.7	21.1
21	17.7	7.3	7.5	20.5
28	17.5	7.5	6.9	19.6
June 4	17.7	7.6	7.	19.8
11	17.4	7.6	7.2	19.7
18	17.2	7.8	7.9	20.
25	17.7	8.2	8.8	21.
July 2	18.2	8.5	8.6	21.
9	20.1	8.8	12.3	26.3
16	20.4	8.9	11.3	25.6
23	20.8	9.1	11.	25.4
30	20.7	9.4	10.9	25.0
August 6	20.3	9.5	11.	24.6
13	20.2	9.6	10.4	23.8
20	20.1	9.6	9.4	22.7
27	20.3	9.7	8.6	22.1
Sept. 3	20.2	9.8	8.5	21.8
10	19.7	9.8	8.4	21.2
17	19.3	9.8	8.2	20.5
24	19.	9.9	8.2	20.1
Oct. 1	19.3	9.8	7.7	20.2
8	19.2	9.7	7.5	19.8
15	20.3	9.5	10.5	23.8
22	20.2	9.6	10.2	23.3
29	20.2	9.8	9.8	22.8
Nov. 5	20.1	9.9	9.7	22.4
12	19.6	10.1	9.6	21.8
19	19.1	10.2	8.8	20.3
26	18.8	10.4	8.7	19.7

Date.	Circulation.	Bullion.	Deposits.	Securities.
1842.	£	£	£	£
Dec. 3	18.8	10.6	8.3	19.2
10	18.5	10.7	8.2	18.6
17	18.3	11.	8.2	18.
24	18.	11.1	8.8	18.3
31	18.2	11.1	8.8	18.6
1843.				
Jan. 7	18.5	10.9	16.5	26.7
14	20.7	10.8	13.8	26.3
21	21.1	10.9	12.8	25.7
28	21.2	11.	12.5	25.4
Feb. 4	21.3	10.9	12.2	25.3
11	20.7	10.9	11.9	24.7
18	20.6	10.9	11.5	24.1
25	20.2	11.	11.5	23.5
March 4	19.7	11.	11.5	23.
11	19.3	11.1	11.3	22.4
18	19.6	11.3	10.8	22.
25	19.6	11.5	10.2	21.5
April 1	19.5	11.6	10.	21.1
8	20.1	11.4	13.3	24.9
15	20.4	11.3	12.4	24.5
22	20.4	11.	11.4	23.7
29	20.2	11.3	11.4	23.2
May 6	19.8	11.1	10.8	22.5
13	19.5	11.2	10.1	21.5
20	19.1	11.4	9.7	20.6
27	19.	11.5	9.3	19.9
June 3	18.9	11.5	8.9	19.4
10	18.4	11.7	9.2	19.
17	18.1	12.	9.2	18.4
24	18.	12.1	9.5	18.6
July 1	18.3	12.	10.4	19.8
8	19.7	11.9	15.2	26.2
15	20.4	11.7	13.8	25.6
22	20.6	11.7	13.	25.1
29	20.6	11.8	12.6	24.5
August 5	20.2	11.8	12.5	24.1
12	19.6	12.	11.9	22.9
19	19.6	12.1	11.2	22.
26	19.4	12.1	10.5	21.
Sept. 2	19.4	12.2	11.	21.5
9	18.9	12.2	10.9	20.8
16	18.7	12.2	10.3	20.
23	18.4	12.3	10.	19.4
30	19.	12.2	10.4	20.4

Date.	Circulation.	Bullion.	Deposits.	Securities.
1843.	£	£	£	£
Oct. 7	18.9	12.	10.3	20.5
14	19.6	11.7	11.8	22.7
21	19.8	11.8	11.4	22.4
28	19.7	11.9	11.3	22.1
Nov. 4	19.5	12.	11.	21.6
11	19.1	12.3	11.	20.8
18	18.7	12.5	10.5	19.8
25	18.8	12.8	11.1	20.2
Dec. 2	18.9	13.1	11.7	20.6
9	18.5	13.4	12.2	20.4
16	18.3	13.9	12.9	20.4
23	18.6	14.3	13.2	20.5
30	19.3	14.9	13.7	21.2
1844.				
Jan. 6	19.5	15.2	18.5	25
13	21.2	15.2	15.9	25.4
20	21.9	15.3	14.6	24.8
27	22.	15.5	14.3	23.9
Feb. 3	22.	15.6	14.	23.6
10	21.7	15.8	13.4	22.6
17	21.5	15.9	13.2	22.
24	21.3	16.1	12.8	21.2
March 2	21.2	16.1	12.3	20.6

Thus far this Table is compiled from the Appendix to the Reports of the Select Committee on Banks of Issue, in 1840 and 1841, and from Parliamentary returns made subsequently, and preparatory to the renewal of the Bank charter in the session of 1844 From the last date given, until the Act of that session came into operation, only the usual monthly accounts were made public, showing the average amount of each item for the previous three months; and the results of these are given in the next page.

Periods to which the Averages refer.	Circulation.	Bullion.	Deposits.	Securities.
1844.	£	£	£	£
Jan. 27 to April 20	21.4	16.	13.6	22.1
Feb. 24 to May 18	21.3	16.	13.3	21.7
March 23 to June 15	21.3	15.9	13.4	21.9
April 20 to July 13	21.2	15.7	13.9	22.4
May 18 to August 10	21.3	15.5	14.	22.9

The Act of 1844, requiring a weekly publication of the accounts of the Bank in the London Gazette, came into operation in the first week of September in that year. These accounts vary materially, in form, from those previously published; but, to preserve the uniformity necessary to a ready comparison with the accounts at previous dates, the results are here presented, through the remainder of the Table, in the same shape as before.

Date.	Circulation.	Bullion.	Deposits.	Securities.
1844.	£	£	£	£
Sept. 7	21.2	15.1	12.2	21.8
14	20.9	15.1	12.8	22.1
21	20.6	15.1	13.8	22.8
28	20.9	15.	14.2	23.7
Oct. 5	21.1	14.6	14.4	24.5
12	21.3	14.3	16.3	26.3
19	22.1	14.1	12.4	23.5
26	22.3	14.	11.8	23.2
Nov. 2	22.2	14.	12.2	23.1
19	21.6	14.1	11.9	22.5
16	21.5	14.2	11.8	22.3
23	21.	14.3	12.6	22.5
30	20.7	14.5	13.5	22.9
Dec. 7	20.5	14.6	14.2	23.1
14	20.2	14.8	14.7	23.2
21	20.1	14.9	15.4	23.7
28	20.1	14.8	15.6	24.

Date.	Circulation.	Bullion.	Deposits.	Securities.
1845.	£	£	£	£
Jan. 4	20.6	14.8	15.3	24.4
11	21.4	14.7	12.9	22.8
18	21.6	14.7	11.8	21.9
25	21.7	14.8	11.4	21.5
Feb. 1	21.6	14.8	11.5	21.6
8	21.3	15.1	13.4	22.9
15	21.1	15.3	14.5	23.7
22	20.7	15.4	15.1	23.7
March 1	20.9	15.7	15.7	24.6
8	20.6	15.8	16.2	24.6
15	20.6	15.9	16.4	24.7
22	20.5	16.	17.3	25.4
29	20.7	16.2	18.	26.1
April 5	21.1	16.	17.3	26.
12	22.3	15.8	16.1	25.6
19	22.5	15.8	14.7	24.5
26	22.3	15.8	11.4	23.
May 3	22.4	15.8	13.	22.9
10	22.1	15.8	13.4	22.9
17	21.6	15.9	14.6	23.4
24	21.4	16.2	15.1	23.4
31	21.4	16.4	16.2	24.4
June 7	21.3	16.5	16.3	24.3
14	21.	16.6	16.5	24.1
21	21.2	16.6	17.	24.8
28	21.3	16.6	17.5	25.4
July 5	21.6	16.4	17.3	25.7
12	22.6	16.1	14.8	25.5
19	22.5	15.8	13.7	23.7
26	22.3	15.7	13.6	23.5
August 2	22.4	15.7	14.1	24.2
9	22.5	15.6	14.2	24.4
16	22.9	15.6	13.9	24.5
23	22.5	15.6	13.7	24.1
30	22.1	15.5	14.4	24.5
Sept. 6	21.7	15.4	14.9	24.8
13	21.3	15.3	15.6	25.1
20	21.4	15.3	16.3	26.
27	21.6	15.1	16.8	26.9
Oct. 4	22.3	14.8	16.8	27.9
11	22.1	14.5	17.2	27.9
18	23.3	14.1	14.3	26.6
25	23.1	14.	13.2	25.5
Nov. 1	23.1	13.8	13.5	26.
8	22.8	13.7	14.4	26.8

Date.	Circulation.	Bullion.	Deposits.	Securities.
1846.	£	£	£	£
Nov. 15	22.5	13.5	15.4	27.6
22	22.	13.5	16.3	28.1
29	21.8	13.2	16.6	28.5
Dec. 6	21.5	13.	17.1	28.8
13	21.	13.2	17.7	28.7
20	21.	13.3	18.1	28.9
27	20.8	13.3	18.1	28.9
1846.				
Jan. 3	21.2	13.2	17.7	28.9
10	21.8	13.1	15.8	27.8
17	22.1	13.1	15.9	28.3
24	22.1	13.1	18.6	30.9
31	22.4	13.2	21.4	34.
Feb. 7	21.3	13.3	23.9	35.4
14	21.	13.4	23.7	34.8
21	21.	13.6	24.2	35.1
28	20.9	13.7	24.9	35.8
March 7	20.3	13.7	24.3	34.6
14	20.2	13.8	23.2	34.5
21	20.1	13.9	24.3	34.3
28	20.5	13.9	24.4	34.7
April 4	20.8	13.8	23.8	34.6
11	21.2	13.5	22.2	33.3
18	21.5	13.6	20.9	32.1
25	21.5	13.6	19.6	30.8
May 2	21.6	13.7	19.3	30.6
9	21.3	13.8	19.2	30.
16	21.1	14.1	20.3	30.6
23	21.1	14.4	20.7	30.6
30	20.8	14.7	21.3	30.9
June 6	20.7	14.9	21.6	30.7
13	20.4	15.3	22.	30.5
20	20.2	15.6	22.6	30.4
27	20.4	16.	22.8	30.6
July 4	20.9	15.9	22.1	30.6
11	21.7	15.8	19.3	28.5
18	22.	15.7	18.	27.7
25	21.7	15.9	17.	26.9
August 1	21.4	15.7	17.2	26.4
8	21.2	15.9	17.4	26.3
15	21.7	15.9	16.9	26.2
22	21.	16.1	16.9	25.4
29	21.2	16.3	16.3	24.8
Sept. 5	21.4	16.2	15.8	24.9
12	20.9	16.3	16.2	24.7

Date.	Circulation.	Bullion.	Deposits.	Securities.
1846.	£	£	£	£
Sept. 19	20.8	16.3	17.	25.4
26	20.7	16.2	18.	26.4
Oct. 3	21.4	15.8	17.9	27.4
10	21.7	15.5	18.1	27.6
17	22.3	15.1	14.3	25.
24	22.3	14.8	13.6	24.4
31	22.3	14.8	13.3	24.4
Nov. 7	21.9	14.7	13.7	24.4
14	21.3	14.8	14.7	24.7
21	21.1	14.9	15.8	25.6
28	20.8	15.	16.4	25.8
Dec. 5	20.7	15.	16.9	26.1
12	20.6	15.1	17.1	26.1
19	20.4	15.1	17.4	26.1
26	20.5	15.	18.	26.9
1847.				
Jan. 2	21.9	14.8	17.9	27.3
9	21.8	14.3	15.6	26.6
16	21.6	13.9	15.3	26.6
23	21.5	13.4	15.	26.6
30	21.4	12.9	14.1	26.2
Feb. 6	20.5	12.2	13.8	25.7
13	20.6	12.2	14.6	26.6
20	20.3	12.2	14.6	26.4
27	20.1	12.	15.2	27.2
March 6	20.1	11.5	15.8	28.3
13	20.	11.4	16.2	28.7
20	19.9	11.2	16.4	29.
27	20.7	11.	16.	29.2
April 3	20.8	10.2	15.5	30.
10	21.3	9.8	16.2	31.1
17	21.1	9.3	13.	28.2
24	20.6	9.2	11.7	26.6
May 1	20.6	9.3	11.6	26.2
8	20.4	9.5	11.8	26.
15	19.9	9.8	13.	26.6
22	19.5	9.9	14.4	27.5
29	19.4	10.1	15.4	28.1
June 5	19.1	10.2	15.9	28.2
12	19.	10.3	16.9	29.
19	18.7	10.5	17.4	29.1
26	18.8	10.5	17.7	29.4
July 3	19.2	10.3	17.6	30.
10	19.8	10.	14.5	27.8
17	19.9	9.9	13.1	26.8

Date.	Circulation.	Bullion.	Deposits.	Securities.
1847.	£	£	£	£
July 24	19.7	9.7	12.8	26.4
31	19.7	9.3	12.8	26.8
August 7	19.5	9.2	13.4	27.4
14	19.4	9.2	13.8	27.7
21	18.9	9.2	13.7	27.1
28	19.	9.1	14.2	27.8
Sept. 4	19.	8.9	14.5	28.5
11	18.6	8.9	15.1	28.8
18	18.7	8.8	15.9	29.8
25	18.8	8.7	16.9	31.
Oct. 2	19.5	8.5	17.2	32.3
9	19.5	8.4	17.1	32.3
16	20.2	8.4	14.1	29.4
23	21.2	8.3	13.3	29.8
30	21.7	8.4	13.6	30.4
Nov. 6	21.3	8.7	13.7	29.9
13	20.9	9.2	14.3	29.5
20	20.1	10.	15.	28.8
27	19.8	10.5	15.9	28.9
Dec. 4	19.6	11.	16.2	28.4
11	19.1	11.4	16.6	28.
18	18.6	11.9	17.3	27.6
25	18.6	12.2	17.4	27.4

Bank Note Circulation of the United Kingdom.

Returns, uniform and periodical, of the note circulation of all the issuing Banks in the United Kingdom, were first required by the Act 4 & 5 Vict. c. 50. (passed 21st June, 1841.) They have since been made at the end of every four weeks. Quarterly returns were previously made of the circulation of the Country Banks of England and Wales, and these are given in the following Table for the first eighteen months. It will be observed that in the present, as in the foregoing Table, five figures on the right hand of each sum are omitted; and the reasons for this are in both cases the same: —

	ENGLAND.			SCOTLAND.	IRELAND.			
	Bank of England.	Private Banks.	Joint Stock Banks.	Chartered Private and Joint Stock Banks.	Bank of Ireland.	Private and Joint Stock Banks.	Total.	Bullion in the Bank of England.
Quarters ending—	£	£	£	£	£	£	£	£
1840. March 28	—	6.8	3 9	—	—	—	—	—
June 27	—	6.9	4.1	—	—	—	—	—
Sept. 26	—	6.3	3.6	—	—	—	—	—
Dec. 26	—	6.5	3.7	—	—	—	—	—
1841. March 27	—	6.3	3.6	—	—	—	—	—
June 26	—	6.4	3.8	—	—	—	—	—
Four weeks ending—								
1841. July 24	17.9	5.9	3.4	3.1	3.0	1.9	35 4	5.0
Aug. 21	17.9	5.8	3.2	3.0	2 9	1.8	34.8	4.8
Sept. 18	17.0	5.7	3.3	3.0	2.8	1.9	34 0	4.8
Oct. 16	17 3	6.2	3.5	3.2	3 0	2.1	35 5	4.2
Nov. 13	17 0	6.2	3.4	3 1	3.3	2.6	36.1	4.2
Dec. 11	16.2	5.7	3 2	3.4	3 3	2.5	34.5	5.0
1842. Jan. 8	16.2	5.4	3.0	3.0	3.2	2.5	33.6	5.6
Feb. 5	17.4	5.5	3.0	2.9	3.2	2.5	34.7	5.6
March 5	16.8	5.2	2.9	2.8	3 8	2.4	33.5	6.2
April 2	16.6	5.0	3 0	2 6	3.0	2.2	33.0	7.0
April 30	18.4	5.4	3.1	2.5	3.1	2.1	34.8	7.0
May 28	17.8	5.3	3.1	2.9	3.0	1.9	34.3	7.3
June 25	17.5	4.9	2.8	2.8	2.9	1.7	32.9	7.8
July 23	19.9	5.1	2.9	2.7	2.8	1.6	35.3	8.8
Aug. 20	20.3	5.1	2.8	2.6	2.8	1.6	35.4	9.5
Sept. 17	19.9	5.0	2.8	2.6	2.8	1.6	34.9	9.8
Oct. 15	19.5	5.4	3.0	2.7	3 0	2.0	35.8	9.8
Nov. 12	20.1	5.4	3.1	2.8	3.1	2.1	36.9	9.9
Dec. 10	18.8	5.0	3.0	3.0	3.1	2.1	35 2	10.5
1843. Jan. 7	18.2	4.9	2.8	2.7	3 1	2.0	34.0	11 0
Feb. 4	21.1	5.0	2.9	2.6	3.1	2.1	36.9	10 9
March 4	20.3	4.7	2 8	2.5	3.1	2.0	35.8	10 9
April 1	19.5	4.7	2.8	2.4	3.0	2.0	34.6	11 4
April 29	20.3	4.9	3.1	2.4	3.1	1.9	36.0	11 3
May 27	19·4	4.7	3.0	2.8	3 2	1.8	35.1	11.3
June 24	18.4	4.5	2.8	2.8	3 1	1.7	33.4	11 8
July 22	19.8	4 4	2.8	2.6	3.0	1.6	31.5	11 8
Aug. 19	20 0	4 3	2.7	2.6	3.0	1.6	34.5	11 9
Sept. 29	19 1	4.2	2.7	2 6	2.9	1.6	33.5	1[illegible] 2
Oct. 14	19.0	4.7	3.1	2.7	3.2	2·0	31.9	1[illegible] 0
Nov. 11	19.5	4.9	3.3	2 9	3.5	2.4	36.6	1[illegible] 0
Dec. 9	18 7	4 5	3.1	3.1	3.5	2.3	35.5	1[illegible] 9
1844 Jan. 6	18.9	4.8	3 2	2.9	3.4	2.3	35.7	1[illegible] 6
Feb. 3	21.8	4.9	3.4	2.7	3.5	2.4	39.0	1[illegible] 4
March 2	21.4	4 9	3.4	2.6	3.6	2.4	38.6	1[illegible] 0
March 30	20.8	4.9	3 5	2.6	3.5	2.4	37.9	1[illegible] 3
April 27	21.8	5.2	3 7	2 7	3.6	2.3	39 5	1[illegible] 8
May 25	21.5	5.1	3.6	3.0	3.6	2 2	39 2	1[illegible] 7

	ENGLAND.			SCOTLAND.	IRELAND.			
	Bank of England.	Private Banks.	Joint Stock Banks.	Chartered Private and Joint Stock Banks.	Bank of Ireland.	Private and Joint Stock Banks.	Total.	Bullion in the Bank of England.
Four weeks ending—	£	£	£	£	£	£	£	£
1844. June 22	20.6	4.7	3.6	3.1	3.4	2.0	37.7	15.8
July 20	21.4	4.6	3.3	2.9	3.4	1 9	37.7	15.4
Aug. 17	21.9	4.5	3.2	2.8	3.3	1.9	38.0	15.2
Sept. 14	21.2	4.3	3.1	2.9	3.3	2.0	37.1	15.2
Oct. 12	21.0	4.6	3.3	2 9	3.5	2.4	38.0	14.8
Nov. 9	21.9	4.6	3.2	3.2	3.8	2.8	39.8	14.1
Dec. 7	20.9	4 4	3.0	3.4	3.9	2.9	38.8	14.4
1845. Jan. 4	20.3	4.4	3 0	3.1	3.9	3.0	37.9	14.8
Feb. 1	21.6	4.5	3.1	3.0	3.9	3 1	39 5	14.8
March 1	21.0	4.4	3.0	2.9	3.9	3.1	38.6	15.4
March 29	20.6	4.4	3.1	2.9	3.9	3.1	38.2	16.0
April 26	22 0	4.6	3.3	3.0	4 0	3.0	40.1	15.9
May 24	21.9	4.6	3.2	3.3	4.0	2.8	40.1	15.9
June 21	21.2	4 3	3.1	3,4	3.8	2.7	38.9	16.5
July 19	22.0	4.4	3.1	3.3	3.8	2.6	39.5	16.2
Aug. 16	22.5	4.4	3.1	3.3	3 7	2.5	39.7	15.7
Sept. 13	21.9	4.3	3.1	3.3	3.7	2.5	39.0	15.5
Oct. 11	21.8	4.5	3.3	3.4	3.9	2.9	40 0	14.9
Nov. 8	23.1	4.7	3.3	3.5	4.3	3 4	42.6	13 9
Dec. 6	22.0	4.5	3.2	3.8	4.4	3.3	41.3	13.3
1846. Jan. 3	21.0	4.5	3.1	3.3	4.3	3.0	39.4	13 3
Jan. 31	22.1	4.6	3.2	3.1	4.3	3.1	40.6	13.2
Feb. 28	21 1	4.4	3.1	3.0	4.3	3.1	39.2	13.5
March 28	20.3	4 5	3.1	3.0	4.2	3.1	38.5	13.8
April 25	21.2	4.7	3.3	3.0	4.3	3.1	39.9	13.6
May 23	21.2	4.6	3.2	3.4	4.3	3.0	39.9	14.0
June 20	20.5	4.4	3.1	3.5	4.1	2.8	38.6	15.1
July 18	21.2	4.4	3.0	3.3	3.9	2.6	38.8	15.8
Aug. 15	21.5	4.3	3.0	3.3	3 8	2 6	38 8	15.9
Sept. 12	21.1	4.4	3.1	3.4	3.9	2.6	38.7	16.2
Oct. 10	21.1	4.6	3.2	3.6	4.1	3 0	40.0	15.9
Nov. 7	22.2	4.7	3.3	3.7	4.4	3 4	41.9	14.9
Dec. 5	21.0	4.5	3.1	3.9	4.3	3.4	40.6	14 9
1847. Jan. 2	20.6	4.5	3.1	3.7	4.2	3.3	39.5	15.0
Jan. 30	21.6	4 6	3.2	3.6	4.1	3.1	40.1	13.6
Feb. 27	20.4	4.5	3.1	3.5	4.0	3.0	38,6	12.2
March 27	20.0	4.5	3.2	3.3	3.8	2.8	37 9	11.3
April 24	21.0	4.7	3.3	3.3	3.8	2.7	38.9	9.6
May 22	20.1	4.6	3.2	3.5	3.6	2.3	37.5	9 6
June 19	19.0	4.3	3.0	3.6	3.3	2.1	35.6	10.3
July 17	19.4	4.3	3 0	3.4	3.2	2.0	35 5	10.2
Aug. 14	19.6	4.2	2.9	3.4	3.1	1.9	35.4	9.4
Sept. 11	18.9	4.1	2.9	3.4	3.0	2 0	34.5	9.0
Oct. 9	19.1	4.3	3.1	3 5	3 1	2.2	35.5	8.6
Nov. 6	21.1	4.2	3.0	3.6	3.2	2.2	37.6	8.4
Dec. 4	19.2	3.6	2.5	3.7	5.3		34.6	10.2

Correspondence between the Government and the Bank of England — 25th Oct. 1847.

"Downing Street, Oct. 25. 1847.

"Gentlemen — Her Majesty's Government have seen with the deepest regret, the pressure which has existed for some weeks upon the commercial interests of the country, and that this pressure has been aggravated by a want of that confidence which is necessary for carrying on the ordinary dealings of trade.

"They have been in hopes that the check given to transactions of a speculative character, the transfer of capital from other countries, the influx of bullion, and the feeling which a knowledge of these circumstances might have been expected to produce, would have removed the prevailing distrust.

"They were encouraged in this expectation by the speedy cessation of a similar state of feeling in the month of April last.

"These hopes have, however, been disappointed, and her Majesty's Government have come to the conclusion that the time has arrived when they ought to attempt, by some extraordinary and temporary measure, to restore confidence to the mercantile and manufacturing community.

"For this purpose, they recommend to the Directors of the Bank of England, in the present emergency, to enlarge the amount of their discounts and advances, upon approved security; but that, in order to retain this operation within reasonable limits, a high rate of interest should be charged. In present circumstances, they would suggest that the rate of interest should not be less than 8 per cent.

"If this course should lead to any infringement of the existing law, her Majesty's Government will be prepared to propose to Parliament on its meeting, a Bill of Indemnity.

"They will rely upon the discretion of the Directors to reduce as soon as possible the amount of their notes, if any extraordinary issues should take place, within the limits prescribed by law.

"Her Majesty's Government are of opinion that any extra profit derived from this measure should be carried to the account of the public, but the precise mode of doing so must be left to future arrangement.

"Her Majesty's Government are not insensible to the evil of any departure from the law which has placed the currency of this country upon a sound basis; but they feel confident that, in the present circumstances, the measure which they have proposed may be safely adopted; and that, at the same time, the main provisions of that law and the vital principle of preserving the convertibility of the bank-note may be firmly maintained.

"We have the honour to be, Gentlemen,
"Your obedient humble Servants,
(Signed) "JOHN RUSSELL.
"CHARLES WOOD.

"The Governor and Deputy-Governor of the Bank of England."

(*Reply.*)

"Bank of England, Oct. 25. 1847.

"GENTLEMEN — We have the honour to acknowledge your letter of this day's date, which we have submitted to the Court of Directors, and we enclose a copy of the resolutions thereon; and

"We have the honour to be, Sirs,
"Your most obedient Servants,
(Signed) "JAMES MORRIS, Governor.
"H. J. PRESCOTT, Deputy-Governor.

"To the First Lord of the Treasury and the Chancellor of the Exchequer."

"Resolved — That this Court do accede to the recommendation contained in the letter from the First Lord of the Treasury and the Chancellor of the Exchequer, dated this day, and addressed to the Governor and Deputy-Governor of the Bank of England, which has just been read:

"That the minimum rate of discount on bills not having more than ninety-five days to run be 8 per cent.:

"That advances be made on bills of exchange, on stock, Exchequer bills, and other approved securities, in sums of not less than 2000*l.*, and for periods to be fixed by the Governors, at the rate of 8 per cent. per annum."

Prices of Gold and Silver; and Exchanges on Hamburgh and Paris.

[The dates taken are those of the last Friday in each month; and the prices are those printed on 'Change.]

Date.		Price of Standard Gold in Bars per oz.			Price of Standard Silver in Bars per oz.		Exchange on Hamburgh. 3 mos.	Exchange on Paris, short.
		£	s.	d.	s.	d.		
1839	Feb. 22	3	18	0	5	0⅝	13.11½	25.35
	May 31	3	18	0	5	0⅜	13.12½	25.40
	Aug. 30	3	17	9	No price.		13.14	25.40
	Nov. 29	3	17	9	5	0½	13.13½	25.50
1840	Feb. 28	3	17	9	5	0¼	13.12½	25.40
	May 29	3	17	9	5	0¼	13.13	25.40
	Aug. 28	3	17	10½	5	0½	13.13	25.40
	Nov. 27	3	17	9	5	0½	13.11	25.45
1841	Feb. 26	3	17	9	5	0⅜	13.10½	25.40
	May 28	3	17	9	5	0¼	13.13½	25.50
	Aug. 27	3	17	9	5	0⅛	13.12½	25.45
	Nov. 26	3	17	9	4	11⅞	13.13½	25.60
1842	Feb. 25	3	17	9	4	11⅛	13.14½	25.70
	May 27	3	17	9	4	11½	13.13½	25.65
	Aug. 26	3	17	9	4	11⅝	13.15½	25.60
	Nov. 25	3	17	9	4	11⅜	13.14½	25.65
1843	Feb. 24	3	17	9	4	11¼	13.14	25.70
	May 26	3	17	9	4	11⅛	13.14	25.80
	Aug. 25	3	17	9	4	11¼	14. 1	25.75
	Nov. 24	3	17	9	4	11¼	13.15	25.70
1844	Feb. 23	3	17	9	4	11⅜	14. 0	25.70
	May 31	3	17	9	4	11⅛	13.14	25.65
	Aug. 30	3	17	9	4	11¾	13.13½	25.60
	Nov. 29	3	17	9	4	11⅝	13.13½	25.65
1845	Feb. 28	3	17	9	4	11⅛	13.15	25.85
	May 30	3	17	9	No price.		14. 0	25.95
	Aug. 29	3	17	9	4	11⅝	13.15	25.80
	Nov. 28	3	17	9	4	11⅜	13.15	25.75
1846	Feb. 27	3	17	9	4	11¼	13.14½	25.75
	May 29	3	17	9	4	11	13.15½	25.85
	Aug. 28	3	17	9	4	11⅛	13.15½	25.85
	Nov. 27	3	17	9	5	0⅛	13.12½	25.70
1847	Jan. 29	3	17	9	5	0⅜	13. 8½	25.40
	Feb. 26	3	17	9	5	0⅜	13.10½	25.45
	Mar. 26	3	17	9	5	0⅜	13.10½	25.50
	Apr. 30	3	17	9	No price.		13.13	25.80
	May 28	3	17	9	4	11⅜	13.13	25.70
	June 25	3	17	9	4	11½	13.12½	25.65
	July 30	3	17	9	5	0	13.13	25.55
	Aug. 27	3	17	9	4	11¾	13.15	25.55
	Sept. 24	3	17	9	4	11⅝	13.14½	25.50
	Oct. 29	3	17	9	4	11⅛	14. 6	26.10
	Nov. 26	3	17	9	4	11⅛	14. 1	25.85
	Dec. 31	3	17	9	4	11⅛	14. 1	25.85

Statement of the Quantity of Gold produced in Russia during the 28 *Years,* 1819—1846.

(From the *Journal de St. Petersbourg*, Samedi, 23 Janv. 1847—6 Févr.)

OF the quantity of gold worked in 1846 in the Crown Mines and in the private mines of the Oural and Siberia, the mint has received to this date 1397 poods 15 liv. 13 zolotnicks, to which must be added 325 p. 14 liv. 74 zol. expected during the winter, thereby making the total production of 1846, 1722 p. 29 liv. 87 zol.

Formerly gold was only worked in the district of the mines of Catherinebourg, belonging to the Crown; in the mines of Reirzoff; and in the district of the mines of Kolyvano-Voskressewok, and of Nertchensk; and was extracted from silver which was worked in those mines: —the whole quantity extracted annually amounted to but 34 to 40 poods.

In 1819, some veins of auriferous sands (gisements de sables aurifères) were discovered in the Oural: — since that time the production of this precious metal has increased in the following proportions: —

	Poods.	Liv.	Zol.
In 1819 - - -	40	9	55
1820 - - -	44	3	0
1821 - - -	52	4	85
1822 - - -	79	21	36
1823 - - -	125	19	79
1824 - - -	228	13	38
1825 - - -	257	12	54
1826 - - -	257	25	15
1827 - - -	307	30	95
1828 - - -	317	39	44
Total -	1711	0	21

It was in 1829 that some veins of auriferous sands were also discovered in Siberia. At first the working was

not very productive; but after awhile, and more especially during the last six years, the results have been very brilliant; as the following figures will prove: —

	Poods.	Liv.	Zol.
In 1829 - - -	314	31	1
1830 - - -	378	15	79
1831 - - -	396	29	37
1832 - - -	410	8	61
1833 - - -	408	22	71
1834 - - -	406	4	64
1835 - - -	413	1	8
1836 - - -	426	3	74
1837 - - -	469	20	75
1838 - - -	524	36	69
1839 - - -	525	6	38
1840 - - -	585	15	60
1841 - - -	681	20	34
1842 - - -	950	26	68
1843 - - -	1283	2	60
1844 - - -	1341	25	60
1845 - - -	1386	6	41
1846 - - -	1722	29	87
Total -	12,624	28	24

Thus since the discovery of the auriferous sands, *i. e.* since 1819, the working of the gold both in the Oural and in Siberia has produced, Poods 14,335 28 45

Of this precious metal, the Crown Mines in the Oural have contributed -	2924	24	32
" those of Siberia - -	1293	7	28
" the private mines in the Oural	4219	39	70
" and those in Siberia -	5897	37	11
Say, of Poods	14,335	28	45

The produce of the year 1846, which, as before stated, amounts to 1722 p. 29 liv. 87 zol., forms more than one tenth of the whole quantity worked since 1819; and exceeds by 336 p. 23 liv. 46 zol., the result of the working of 1845.

Resumé—From the Times.—(Friday, 26th March, 1847.)

	Poods.	Liv.	Zol.	Equal to oz. Troy.	Value at 77s. 9d. per oz.
Yield in 1846 - -	1722	29	87	907,284	£3,527,066
Yield from 1819 (the period when some golden sands were discovered in Oural) to 1828, inclusive.	1711	0	21	901,101	£3,503,029
Yield from 1829, (when a discovery was made in Siberia) to 1846, inclusive.	12,624	28	24	6,648,801	£25,847,215
Total Poods	14,335	28	45	Oz. 7,549,902	£29,350,244

Imperial Manifesto.

WE, NICHOLAS I., BY THE GRACE OF GOD, EMPEROR AND AUTOCRAT OF ALL THE RUSSIAS, ETC.

THE various changes produced by time and the influence of circumstances in our monetary relations have not only had the effect that the notes of the Imperial Bank, contrary to their original destination, have obtained the preference over the silver money, which is the proper standard of value in our empire, but also that hence a manifold agio has come into use, which has at length moulded itself differently in almost every locality.

Since we have become convinced of the necessity of putting an end, without further delay, to these fluctuations, which disturb the unity and conformity of our monetary system, and cause losses and difficulties of various kinds to all classes, we have, in our constant care for the welfare of our faithful subjects, thought it right to adopt decisive measures for the removal of the inconveniences which have thus arisen, and for their prevention in future.

For this purpose, and after special consideration in the Council of State of all the questions which the subject embraces, we decree as follows:—

I. " In order to the restoration of the basis of the mani-

festo of the Emperor of Alexander I., of glorious memory, of June 20th, 1810, the Russian silver coinage is henceforth recognised as the money forming the principal medium for payments, and the silver ruble, according to its present value and existing subdivisions, is established as legal and unalterable chief metallic unit of the money current in the empire, in proportion to which all assessments, duties, and taxes, as well as different payments, and regulated State expenditures, shall at the time be reduced to silver value.

II. " While the silver money will thus become the principal medium of payment, the notes of the Imperial Bank will, in conformity with their original destination, remain a more auxiliary sign of value, whereby for the present and future a more constant and unchangeable course in respect to the silver money will be assigned to the said notes, and, indeed, the silver ruble, as well in itself as in all its subdivisions, will be now at 3 rubles 50 copecs in bank paper.

III. " According to the settled and unchangeable course, all persons will be at liberty to make the following payments either in silver or paper money:—

(A.) " All imposts and duties accruing to the Crown or territorial jurisdictions, and other charges of that description, and in general all payments fixed by and due to the Crown.

(B.) " All payments partaking of the nature of a tax, such as postage of letters, charge on post travelling, on salt, the farmed duties on liquors, stamps, passports, tobacco rolls, &c.

(C.) " All payments to the several credit institutes of the empire, the savings banks, and private banks, established under the sanction of the Government.

IV. " In like manner all regulated state disbursements, all payments by the Crown and the Credit Institutes, the per centage on Treasury bills, and for the notes representing outstanding public debt securities, will be made good, in conformity with the same invariable course, in silver or in paper, as the one or the other kind of money may happen to exist in the coffers of the establishments.

V. " All the above indicated payments and advances are, from and after the day of the publication of this manifesto, to be effected according to the above prescribed and unalterable course: nevertheless, the course for imposts, which, awaiting the adoption of more discriminating mea-

sures respecting the monetary system, was for this year fixed at 3 rubles 60 copecs, must, as once sanctioned, subsist until the year 1840 at the same ratio; and so for assessments, duties, and all payments comprehended under letters (A.) and (B.) in article III.; as also for all regulated outlays and the like previously defined expenditures of the Crown. On this ground, and as it would be injurious to the commercial class to alter the tariff course in the middle of the year, the same will also be maintained until the year 1840.

VI. " All calculations, engagements, and in general all transactions between the Crown and individuals, as well as all bargains of private persons with each other, are to be contracted and completed in silver money only. As, however, in consequence of the wide boundaries of the empire, this regulation cannot be carried promptly into operation throughout the whole extent, the same is, therefore, to be considered as binding in full force only after the 1st of January, 1840, from which time forward no judicial authority, broker, or notary, shall, on their responsibility, take any part in the expediting or confirming of any settlements in paper money. However, all payments, as well for old contracts and stipulations in notes, as for the more recent in silver, may, without distinction, be completed in silver or paper money, according to the course established in article II., and no one is entitled to refuse payments in silver or notes, without distinction, according to the said course.

VII. " The rule for loans from the Imperial Credit Institutes is henceforth also based on silver, and at the rate of 75, 60, or 45 silver rubles, on the revised registers of males.

VIII. " In order to facilitate in all possible ways the exchange of money, it is hereby made the duty of the Rentist Chambers of Districts to exchange notes for silver, and silver for notes, in proportion to the state of their coffers, at the appointed rate of 3 rubles 50 copecs, and namely, the demand of every applicant to the extent, for one individual, of 100 rubles silver or notes, according to the circumstances.

IX. " To give to the paper money any other course than that fixed above is hereby strictly prohibited; as also is the giving to silver and notes an agio in the form of a per centage, or hereafter by new transactions to take advantage

of the so-called settlement by account for specie. The course of exchange on the Bourse, as well as all quotations in the stock lists, price currents, and such-like advertisements, are henceforth to be expressed in silver. No notice of the course of bank notes shall in future be given on the Bourse.

X. "The gold coinage is issued and received by the Crown and the Credit Institutes at 3 per cent. higher than the silver money — namely, the imperial, at 10 rubles 30 copecs; the half imperial, at 5 rubles 15 copecs silver.

XI. "In order to prevent all disadvantage to persons making payments into the Crown offices and Credit Institutes, the officers of those establishments are required to consider it their duty in such transactions to reject no Russian money of the old or the present coinage under the pretext that the marks of the die are no longer perceptible, or that the weight is deficient, or the impression not recognizable. Thus, only coin which has been cut, filed, or which has holes in it, can be returned to the payers.

XII. "The copper money at present in circulation will be allowed to remain current until its conversion into silver value, in the following manner: —

(A.) "Three and a half copper copecs will be held equivalent to one silver copec, as well in respect of the copper coin which was struck on the footing of 36, as of that which was struck on the footing of 24 rubles to the pood.

(B.) "The copper coin is receivable in the financial offices of the Crown in payment of taxes, duties, revenues, and other contributions, without limitation of quantity, with the exception, however, of those cases in which the amount receivable of copper money is fixed by contract. The Credit Institutes are not bound to receive more than to the value of 10 silver rubles of copper money. Among private persons the affair depends upon the stipulations entered into with each other."

(Under the Sign Manual)

"NICHOLAS.

"Given at St. Petersburg, on the 1st of July, in the year of grace, 1839, and of our reign the 14th."

Address of the Russian Minister of Finance, on presenting to the Council of State the Annual Accounts of the Imperial Banks. — 10*th July*, 1847.

Gentlemen, — In presenting to you the account returned of the banks of the empire, containing an exposition of their operations through the year 1846, I would previously inform you of some particular disposals which have been made in the course of this year.

1st. The want of money which has been felt during the last months of the past year in the principal places of Europe, accruing partly from what they were obliged to employ to buy corn, on account of the dearth experienced in different countries, and partly from the immense enterprises, having for their object the extension of railroads, allow not the hope that the loan destined to cover the expenses necessary in the present year for the construction of the railway from St. Petersburg to Moscow, can be realised in as advantageous a manner as the former loans; that is why, in the view of preparing in time secure resources to meet these expenses, an imperial *ukase* of the 21st January of the present year, prescribed the emission of the 8th and 9th series of the treasury bills of the empire, each worth 3,000,000 silver rubles, besides the disbursement in reserve of the 10th and 11th series, in a case where it would become further difficult to open for this year a foreign loan for this purpose. Three of these series have already been put in circulation. The emission of the last, that is to say of the fourth, will probably be also indispensable. By this means guarantee will be found for the present year for the execution of the works of this construction, so important for commerce and industry.

2nd. Several proprietors of mines in the Ural chain of mountains, not having sufficient disposable capital to work these mines as they would wish, were forced, either to borrow money, sometimes at a high interest, or to sell their metal in advance at a great abatement in price, which paralysed the activity of these establishments, and put some of them in an awkward situation. To obviate this inconvenience, it has appeared necessary to found at

Catherineburg, the centre of our metallic industry, a branch office of the Bank of Commerce to effect loans on the security of metals produced in the country. I cannot, on this occasion, pass over with silence the fact that the first idea of this useful institution belongs to S. A. I. Mgr. le Duc de Leuchtenburg, who visited personally the mines of Ural about the end of 1845.

This branch bank will forthwith commence its operations: we can then hope that before long the inconveniences will be overcome, and that the proprietors of the mines will be able to extend the circle of their operations.

At the same time that a branch of the bank was instituted at Catherineburg, not the least difficulty was found also to satisfy the desires of the merchants who frequented the Irbite fair, that a temporary office should be annually opened in imitation of the one at Niznei-Novgorod. It is to be hoped that this institution contributes to the greatest development of commerce in this remote country.

3rd. I do not think it superfluous to make mention here of the unexpected modification in the composition of the members of the council of the Bank of Issue of the empire named by the commercial body. Instead of five members entirely elected every three years among the merchants, it has been judged more convenient to designate as permanent members the president of the committee of the exchange, and the syndic of dealers: as to the other three members, their election will take place as in past times.

4th. The exchange of assignments of the bank and of bills of deposit actually in circulation against the bills of credit, having commenced the 1st of November, 1843, has continued till now with success without any coercive measures. On the number of 595,776,310 rubles ass., and of 48,551,198 rubles of bills of deposit, it has been exchanged till now for 498,139,025 rubles of the first, and 45,365,767 of the second. Rest, in circulation 97,637,285 rubles ass., and 3,185,430 of bills of deposit.

Seeing the *minimum* of this quantity, it has been judged necessary to take measures for the final debarment of the circulation, and the following adjournment has been irrevocably fixed: as general delay, the 1st of January, 1848; and as particular delay, for the government of Siberia, the

1st of July, 1848; and for the colonies of the company of North America, 1st of January, 1849.

5th. The use of a great part of the capital in Europe, in buying corn, as I said above, and in railway speculations, ought necessarily to have a sensible influence on the minds of the public. You know, gentlemen, that they have considerably fallen in price, especially at the beginning of this year.

S. M. l'Empereur, in his constant solicitude for the progress of financial and commercial affairs, has condescended to order a previous examination in the committee of finance, and also with the advice of this last in the council of the empire of the following question: — "Ought they not, in the present depreciation of the price of the public funds, proceed to buy, employing for this purpose from 20 to 30,000,000 silver rubles of the funds of the Bank of Issue of notes of the empire, a like measure not being in the least in discord with the law on the inalienability of the funds of these notes, as in an exchange of metallic cash will be held a sum equivalent of other funds, which represent a capital bearing interest, and which, when it becomes necessary to reinforce the funds of the bank, will be able to be converted into gold and silver, by selling these securities, while, in the mean time, the interest sappertaining to them would enrich Russia?"

The committee of finance, examining the ground of this question, and taking it into consideration that in the banks of England and of France, enjoying the firmest credit, the same as in the other banks of the first class, the capital is composed partly in money of the precious metals, and partly in public funds — that in the employment of part of the capital of the banks of circulation, in the purchase of the public funds in Russia and elsewhere, will be more advantageous to the bank — the mass of transferable capitals will augment, and by that the transactions of commerce will become much easier and more extended; and that, not limiting the buying to the Russian funds, it will also be advantageous to acquire a certain quantity of funds of other states of the first order — so much more so, as the interests will be due in foreign countries — thus procuring to the minister of finance a considerable advantage, in liberating him from the necessary costs of the transmission to foreign countries of sums annually necessary for different payments, for the maintenance of legations, the payment

of interests of foreign loans, as well as of different purchasse for the fleet and for the railway from St. Petersburg to Moscow; — the committee of finance, taking into consideration all these motives, has been entirely convinced that the execution of a like measure, not changing the terms of the manifesto of July the 1st, 1843, will not in the least disturb the solidity of our national credit, and in consequence, we have decided (February the 7th, 1847) to separate from the bullion representing the notes in circulation the sum of 30,000,000 silver rubles for the successive acquisition of Russian and foreign public funds, and to consign the operation itself to the minister of finance, who ought, in the necessary occurrences, to appeal to the special decision of his S. M. l'Empereur. The advice rendered by the council of the empire was sanctioned by his S. M. l'Empereur the 31st of March of the present year.

Regarding it as superfluous here to relate the particulars, I cannot help, Gentlemen, offering to your attention the fact that the above measure, not only has made no unfavourable public impression, but it has, on the contrary, strengthened the general confidence in the circulating notes of the empire, which is also confirmed by the following fact. At the time of its publication the capital in metallic money and ingots was 114,289,000 rubles; and now, after there has been taken from it 30,000,000, to purchase the public funds, the amount has risen to 110,590,000 rubles: it therefore follows that it has, since then, increased by 26,300,000 rubles.

Extracts from the Evidence of Mr. Tooke before the Select Committee of the House of Commons, on Banks of Issue, in 1840.

28th JULY, 1840.

3292. *Mr. Hume.* Will you state what part of the currency or circulating medium affects prices, under the definitions which you have now given? — No one part of them affects the prices of commodities more than any of the other parts.

3293. *Mr. Grote.* Do you mean not more in degree, or not in any different way? — Not more in degree.

3294. You mean, that every portion of that which you have described, under the name "circulating medium," is perfectly equal to every other portion in the effect which it produces upon prices?—Perfectly so.

3295. *Mr. Hume.* Do you mean that every transaction of purchase or sale, by any of the means which you have mentioned as included in the circulating medium, equally affects prices?—Yes, and that was my reason for caring so little about making a distinction among them. I doubt whether they operate upon prices at all.

3296. *Mr. Grote.* You mean, that none of those items which you have enumerated under the general term "circulating medium," have in your opinion any effect upon prices?—Yes, I mean that they are not operative causes of prices.

3297. *Mr. Hume.* What is it, then, which does affect prices?—*The cost of production limiting the supply on the one hand, and the pecuniary means of the consumer limiting the demand on the other.*

3298. Will not the variations in the quantity of the circulating medium affect prices?—No.

3299. Will it not if abundant be more at the disposal of individuals for purchasers than when it is scarce?—It will be more easily disposable, but it will not be necessarily so disposed of; *I believe that the amount of the circulating medium is the effect and not the cause of variations in prices.*

3300. *Mr. Warburton.* Suppose the supply of the precious metals in the world to be increased, and to go on doubling and trebling and so on, will not the prices of commodities estimated in the precious metals go on doubling and trebling and so on, in proportion to the increase of the precious metals?—Yes, they would undoubtedly; and *I took for granted that we were speaking of alterations in prices, as distinct from those of bullion-values in the commercial world.*

3301. Supposing the quantity of the precious metals in the world to remain constant, and that in any country you go on increasing the quantity of the notes payable on demand, will the prices of commodities estimated in those notes undergo a variation proportionate to the increase of the notes?—*Not if the notes are payable in gold on demand,* unless in the degree in which it may be supposed that the value of gold is affected in the commercial world by an extensive substitution of paper for gold; I consider that

those points were distinctly understood as the only conditions by which the money prices of commodities were likely to be affected, independently of the circumstances affecting the articles themselves.

3302. Suppose, as before, the quantity of precious metals in the world to remain constant, and that the number of bills of exchange in the country is doubled, trebled, and so on, will the prices of commodities undergo a variation in proportion to the increase of bills of exchange?—*No, the increase of bills of exchange would not be the cause of any rise of prices or vice versâ*; circumstances affecting the articles, or the opinions of persons dealing in the articles would affect prices.

3303. Suppose, as before, the quantity of the precious metals in the world to remain constant, and that the number of deposits in bankers' hands available to the purchase and sale of commodities is doubled, trebled, and so on, will the prices of commodities vary in proportion to that increase of deposits in bankers' hands?—*Not in the slightest degree.*

3304. *Mr. Grote.* Suppose an inconvertible paper money, such as the assignats which were issued by the French Government during the French Revolution, is it not your opinion that the quantity of paper money would have an influence upon prices?—A direct one, as has been the case with the French assignats and with some other issues of the continental Governments; and as was remarkably the case with the paper money in America during the war for independence. Perhaps I might be allowed to add, that *it is the analogy that has been commonly considered as subsisting between the paper issued by Government without liability to repayment, and paper issued upon securities and payable in gold upon demand, that has led to the very general and, as I believe, erroneous theory, which ascribes the alterations in the amount of the circulating medium so issued as the cause of a rise of prices.*

3305. *Mr. Warburton.* Do not you apprehend that all those other modes of payment, such as bills of exchange, notes payable on demand, deposits, and so forth, as the precious metals, are the ultimate commodity to which all those are referable, are limited in their amount and must bear a certain proportion to the coin specie of the country? —Unquestionably.

3306. And the precious metals being supposed to be invariable, the amount of bills of exchange, notes payable

on demand, and so forth, can only fluctuate within certain moderate limits?—Within short periods, and before the principle of limitation can apply, there may be a very great fluctuation.

4th AUG. 1840.

3615. Have you seen a table contained in a work published by Mr. Porter, called "The Progress of the Nation," showing the comparative prices of fifty articles at different times during the years 1833–4–5–6, and 7, and also showing the amount of the Bank of England and country circulation during that period; and can you give any opinion as to its correctness?—Yes; I have seen the table, I am aware of the manner in which it has been constructed. The prices of fifty articles of merchandise have been taken monthly, for each month from January 1833 to the close of 1837; but the construction of the table is such, that, in my opinion, it can give no correct information of the kind which it professes to give. In forming this table, no reference is made to the comparative value of the articles contained in it; therefore, if the object of judging of the value of the currency, by the comparison of the prices of all or any of the articles contained in the list, were desirable or obtainable, it could not be done by this method. The comparisons are made, and the result drawn, without any reference whatever to the value of the articles compared. Thus, if I recollect rightly (for it is now four or five years since Mr. Porter showed me his manuscript framework of the tables), the article of Annatto, the whole annual importation of which is probably of a value not exceeding 20,000*l.*, is of equal influence in the result of the prices for the month or for the year as wheat, or cotton, or coffee, and sugar, articles which embrace as many millions as this does hundreds of pounds in value; and I rather think that the first five articles in the list, would not embrace the value of a hundredth part of five other articles that might be selected, yet those articles of low value enter into the same line of comparison with those of the highest value; and I believe that I might undertake to select twenty five out of the fifty articles which would not constitute the value of one tenth of the remaining twenty-five. It is perfectly clear, taking as an instance dyeing materials, which are in small quantity, that there might be a rise, as in the case of Annatto, of from 1*s.* to 2*s.* a pound, and

this if carried through the year would make an advance as far as that article, out of the fifty told, of 100 per cent.; and there might on the other hand be a fall in the price of wheat of 50 per cent.; but, as the result of the two operating equally on the scale, while wheat had been falling only 50 per cent., you would have an apparent rise of prices of 50 per cent.; and I think it must be perfectly clear that a table so constructed, although it would give a good deal of information to any body wanting to see the fluctuations in any particular article, and, although it certainly does great credit to the industry and ingenuity that has been employed in the construction of it, yet it is not only valueless but deceptive for the purpose for which it is proposed. The chances are against, rather than for, the result being one which is at all conformable to the tendency of the more valuable of the articles. Besides, on the face of the table there is a total discrepancy in the supposed coincidence between the circulation of bank notes and the progress of prices in the scale. Thus, for instance, in February 1835, when a rise of general prices, according to this table, of upwards of 16 per cent. is indicated, there is no apparent increase in the circulation from February 1833, supposing the country circulation which is not there stated to be the same in both cases; and so I might go on in several other instances. There appears to me to be nothing approaching to a coincidence, even if that coincidence would of itself, if it existed, be sufficient to raise a presumption of cause and effect. The Bank of England notes in February 1833 were 18,318,000*l.*, and in February 18,099,000*l.*; at the same time, there is no doubt that in the early part of 1836 a very considerable number of articles, embracing a great value, and among those the articles that were referred to in my last examination, as introduced into the report of the Manchester Chamber of Commerce, were at an advance of prices compared with the period at which the scale commences. And it is equally true no doubt, that that set of articles did fall in price at different periods subsequently to 1836, but chiefly in the commencement of the summer of 1837. It will, however, be found on examination that in the case of each of those articles, which reached nearly, if not quite, their highest in the spring of 1836, there was a sufficient cause, from a reference to the supply and demand, for the rise that took place at that time; and also a very full and sufficient reason for the fall which subsequently succeeded, *without having occasion to refer to any but the obvious mer-*

cantile causes that operate upon markets, independently of any variations in the quantity of money appearing, as the originating cause of those variations in prices.

3616. Are the prices of the five great articles, cottons, woollens, silks, linen, and hardware, included in those fifty articles of Mr. Porter's table?—The raw materials are, as I understand; the gentleman of the Manchester Chamber of Commerce, who have referred to this table in support of their views, consider that the raw materials are those which indicate the value of the currency. The articles that I understand to be in question, are cotton, wool, silks, flax, and iron.

3617. Do you happen to know whether the report of the Chamber of Commerce refers to the price of raw materials or of manufactured goods?—It is not quite clear that they make a distinction, but I think they refer to both in their estimate of loss; I imagine they include the losses the manufacturers have sustained in bringing the raw materials into a finished state; and also, the losses of the retail trade in the manufactured goods.

3618. Do you conceive that in those five articles there was a fall of from 25 to 30 per cent.?—That will be seen by the list of prices, without going into each of them. The fall was in no one of the articles so much as 50 per cent. The extreme depression did not last many days, nor apply to any considerable sales; and the general range of prices in 1837 as compared with 1836, does not indicate a fall greater in any particular article than was warranted by the state of supply and demand.

3619. Can you make any statement to the Committee in confirmation of this opinion of yours?—Yes. Of the quantity of iron produced there are no statistical returns; at the same time it is quite matter of notoriety that there was at that time a great increase of furnaces put into blast, and a vast increase of the quantity of iron produced. Of the remaining four articles I have here a statement, which will show the quantities imported for four years, during 1833, 1834, 1835, and 1836; I have added to the table two other articles to which a similar mode of reasoning applies.

The witness delivered in the same, which was as follows:—

Years.	Cotton twist.	Sheep's Wool.	Silk, raw and thrown.	Flax.	Indigo.	Tea.
1833	303,656,887	380,46,087	3,011,228	126,550,896	6,635,436	31,709,016
1834	326,875,425	464,55,232	3,835,661	88,958,464	4,155,296	33,613,980
1835	363,702,963	421,74 496	3,953,363	183,182,960	4,168,396	44,360,550
1836	.406,959,057	642,39,952		1151,590,720	7,710,544	49,307,710

And whereas, the stocks of cotton, notwithstanding the increase of importation down to 1835, were progressively diminishing; at the close of 1836 it turned out that there was a very large increase of stock, compared with the preceding three years, which of itself would account for a considerable fall of price. With respect to that and other articles which have been particularly referred to, I should observe, that while the state of the supply would account for a great part of the rise in 1836, and the subsequent fall, there were circumstances affecting the demand which were calculated to increase all the effects that might be anticipated from a view of excess in the supply. Of the circumstances I allude to as affecting the demand, the most extraordinary was an increasing extent, from 1833 to 1836, of shipments to America. The importations into the United States, which are chiefly from this country, in 1833 were 108,118,311\$: in 1836 they had increased to 189,880,935\$. Of the causes of that increased demand, it may be of interest to the Committee to have an authentic and very concise account: it is contained in an extract of the Message of the President of the United States of America to Congress, dated Washington, 4th September 1837, which with the permission of the Committee I will read:

"The history (says the Message,) of the trade in the United States for the last three or four years, affords the most convincing evidence that our present condition is chiefly to be attributed to over-action in all the departments of business; an overaction, deriving, perhaps, its first impulse from antecedent causes, but stimulated to its destructive consequences by excessive issues of bank paper, and by other facilities for the acquisition and enlargement of credit. At the commencement of the year 1834, the banking capital of the United States, including that of the National Bank then existing, amounted to about 200,000,000\$; the bank notes then in circulation to about 95,000,000\$; and the loans and discounts of the banks, to 324,000,000\$. Between that time and the 1st of Janu-

ary, 1836, being the latest period to which accurate accounts have been received, our banking capital was increased to more than 251,000,000\$; our paper circulation to more than 140,000,000\$; and the loans and discounts to more than 457,000,000\$. To this increase are to be added the many millions of credit acquired by means of foreign loans, contracted by the states and state institutions, and, above all, by the lavish accommodations extended by foreign dealers to our merchants. The consequence of this redundancy of credit, and of the spirit of reckless speculation engendered by it, was a foreign debt contracted by our merchants, estimated in March last at 30,000,000\$; the extension to traders in the interior of our country, of credits for supplies greatly beyond the wants of the people; the investment of 39,500,000\$ in unproductive public lands, in the years 1835 and 1836, whilst in the preceding years the sales only amounted to 4,500,000\$; the creation of debts to an almost countless amount, for real estate, in existing or anticipated cities and villages equally unproductive, and at prices now seen to be greatly disproportionate to their real value; the expenditure of immense sums in improvements, which in many cases have been found to be ruinously improvident."

Perhaps the Committee will allow me to lay before it in illustration of the very extraordinary impulse that was given to the extension, and, apparently, the undue extension of trade, by the system of credits which prevailed in the five or six years preceding 1836, the following statement, showing what had been the exports and imports from 1824 to 1830, and comparing those with the imports and exports from 1831 to 1837 inclusive.

(The witness delivered in the same, which was as follows.)

From 1824 to 1830 inclusive, the imports and exports of the Union were about on a balance, and stood as follows:—

Years.	Imports.	Exports.
1824.	80,549,007.	75,986,657.
1825.	96,340,075.	99,535,388.
1826.	84,974,477.	77,595,322.
1827.	79,484,068.	82,324,827.
1828.	88,509,824.	72,264,686.
1829.	74,492,527.	72,358,671.
1830.	70,876,920.	73,849,508.

But thenceforward the case was different, as the following results will show: —

Years.	Imports.	Exports.
1831.	103,191,124.	81,310,583.
1832.	101,029,266.	87,176,943.
1833.	108,118,311.	90,140,433.
1834.	126,521,332.	104,346,973.
1835.	149,895,749.	121,693,577.
1836.	189,880,035.	128,663,040.
1837.	140,989,217.	117,419,376.

Under a system of credit like that which seems to have prevailed, and have been acted upon to so extraordinary an extent in the United States at the period under consideration, it is hardly to be wondered at that the manufacturers of this country should receive a prodigious impulse, and that they should have carried on, as long as credit was entire, a most beneficial and prosperous business. Indeed, so sound and solid did the business naturally appear to the manufacturers to be, that it is not to be wondered at that they should have relied upon its continuance, and availed themselves of all their means of capital and credit to extend their manufacturing establishments; for the credits they received, against the orders that were sent to them, were of the very best description, being upon houses here whose reputation for wealth left no question at all about their responsibility; but having in these prosperous times so extended their power of manufacture, and probably having had gains in a much larger proportion than would be indicated by a mere rise in the price of the raw materials, it is perfectly obvious that upon the cessation or great curtailment of that demand, the loss on the manufactured goods would be in a greater proportion than the fall upon the raw material; and, as far as I can learn from general information, the price of manufactured goods had, in point of fact, fallen in a greater proportion than the price of raw materials. At the same time I beg leave to disclaim any particular knowledge of the markets for manufactured goods. While, through 1836, so extensive a demand for export had existed, the falling off in 1837 was very great. In proof of this, is the following statement of the number of packages sent from Liverpool to the Northern Atlantic towns, from the month of April to the month of September inclusive, in each of the years 1836 and 1837.

Of cotton goods in 1836, 20,140; in 1837, 1842. Of worsted stuffs in 1836, 6687; in 1837, 2990. Of woollen goods in 1836, 18,096; in 1837, 4,400. I think, therefore, without going into further details, which would be fatiguing to the Committee, *a very clear case is made out to account for the rise of prices of the articles alluded to in the period ending in the spring of* 1836, *and for their subsequent fall in the spring and summer of* 1837, *without reference to the state of the circulation.*

3620. Can you in the years which have elapsed, subsequently to 1837, trace any effect produced upon prices by the variations in the amount of bank notes in circulation? —*Not any.*

3621. Are the Committee, then, to understand, that so long as the paper is convertible into specie, you cannot attribute any effect whatever upon prices to the variations in the amount of the bank notes in circulation?—*I am perfectly satisfied that no alteration in the prices can be traced in any way to the amount of the circulation.*

3622. It appears by the evidence given by you in 1832, that you gave this answer (3821). "If an enlarged issue takes place, coincidently with circumstances favouring speculation and general over-trading, there can be no question but that it contributes to increase that tendency, and to aggravate very considerably the consequent revulsion." Do you still retain that opinion?—*I do not,* I had not then divested myself of the opinion which had been, and I believe is, the prevailing one, that there is a connection between the amount of bank notes in the hands of the public and the state of prices. I do not ascribe any variation in prices to variations in the amount of circulation, as their originating cause.

3623. Do you not suppose that an increase in the amount of bank notes in circulation, will afford facilities for the enlargement of the circulating medium, and of credit generally, so as to facilitate an increase of prices?—Not at all. *I conceive that it is the enlargement of credit, under the influence of opinion respecting prices, that, by entailing an increase of transactions, may, according to the nature of the transactions, rather than the amount of them, call out an additional amount of bank notes.*

5th AUGUST, 1840.

3722. Have you any observations to make upon the conduct of the Bank in the course of the year 1836?—

That question involves considerations that would diverge, probably, into a very extensive discussion upon the propriety of the Bank interfering, as it did, in the case of the accommodation afforded to the Northern and Central Bank, and likewise to the American Houses. In my opinion the Bank did not take measures early enough to keep down or reduce its securities so as to counteract the efflux of bullion at the time when it was in a low proportion to their liabilities, and when, in contemplation of circumstances, of no improbable occurrence, their power of maintaining the convertibility of their paper might have been involved.

3723. Do you conceive that the variations in the amount of the bullion, depend upon the variations in the amount of the securities?—*Clearly, that is the only mode in which the Bank can operate,* viz., *by the securities. The circulation is independent of the Bank operations, within certain extensive limits.* As I have before observed, until the amount of the deposits is reduced so much as to admit of no further claim on the part of the depositors for bank notes against them, the Bank may not be in a position in which they can with certainty operate upon the amount of the circulation.

3724. Do you conceive, then, that an increase of securities necessarily tends to an efflux of bullion, and a diminution of securities to an influx of bullion? — *Certainly, according to the degree.*

3725. Do you conceive that to be independent of the variations in the amount of bank notes in circulation at the time?—*As nearly as may be independent of it, that is within very extensive limits; I mean that the limit to the reduction would be that degree of it which would operate upon the minimum of the reserve of the bankers within the district to which the exclusive privilege of the Bank of England is limited. Until the reduction reach that amount, it is not at all clear that there is any immediate connection between the state of the circulation and the tendency to an influx or any efflux of bullion.*

3726. Does it appear that the extraordinary increase of securities in the autumn of 1835, had any tendency to check the influx of bullion?—*I have no doubt that it did check the influx, and that is one of my objections to it.*

3727. Did not the bullion increase more rapidly than before, towards the close of 1835, and in the early part of 1836? Unquestionably it did.

3728. Does it appear that the diminution of securities in the first quarter of 1836, produced any subsequent increase of the bullion?—*It is only as operating upon the rate of interest that the amount of securities is important in one way or the other. I do not mean to say that there is any fixed proportion between the securities and the amount of bullion.* There may be certainly a diminution of the bullion coincident, or contemporaneous with, a reduction of securities; in that case it is clear that the rate of interest is not sufficiently high, and that a further reduction of securities is necessary.

3729. Does it not appear that, in the autumn of 1835, the influx of bullion was accompanied by a diminution of circulation, and an increase of securities?—Yes; but my objection to any increase of securities still is, that if there had been a moderate pressure on the money market at that time, which would have been effected by withholding the reinvestment, the influx of bullion would have been more considerable; and then, when the turn came in May 1836, the Bank would have been in a better position to have met it *There is a degree of reduction of the amount of bank notes which would operate immediately and violently the moment that, through the operation of the forcible reduction of the securities, the circulation should be reduced below that which would be consistent with the regular payments of the metropolis; there would be a very considerably increased value of the circulating medium, probably a very great rise in the rate of interest, and a considerable contraction of transactions upon credit, and an inevitable tendency to produce an influx, or to stop a drain, if any previously existed, of bullion.*

3730. Would not, on your principle, the rapid reduction of securities which took place in the first quarter of 1836, have tended to produce an influx of bullion instead of a drain, which notoriously took place from that time?—No: I must be misunderstood if I have said anything (for I certainly did not intend to do so) which would lead to the supposition that the mere numerical amount of securities is to be looked to, as certainly indicating whether it favoured the influx or the efflux of bullion; but I certainly conceive, looking at the table as it is before me, that if the Bank had adhered to its rule (upon which I am not at present called upon to give any opinion) of keeping its securities even, the chance is that there would not have been so low a state of their treasure through 1835 as really did exist.

3731. Did you not state that you conceived that the variations of bullion, depend upon variations of securities; that an increase of securities tended to produce an efflux of bullion, and that a diminution of securities tended to produce an influx of bullion?—That might be the general tendency, but it might be counteracted by other circumstances.

3732. If that be so, do you not conceive that so considerable a diminution of securities as 5,000,000*l.* in three months, would tend to produce, according to your principle, an influx of bullion?—Not unless it was a designed operation of the Bank. If it was merely the effect of the running off of the securities, I am not clear that it would; it would require an operation upon the rate of interest. There might be such a state of credit as for some time would interfere with any operation by the Bank, unless carried to a considerable extent, on the rate of interest.

3733. Do you conceive that so large a reduction as 5,000,000*l.* in the amount of circulation, by whatever cause produced, would not lead to an influx of bullion?—I can hardly conceive any short period, and taking corresponding periods of the quarter in which a reduction of 5,000,000*l.* would not operate in the way I have stated, of interfering with the regularity of the payments of the metropolis; and, in that case, I have no doubt it would have a great effect, in either inducing or increasing an influx of bullion.

3734. If then, according to your last statement, a reduction in the amount of the circulation would produce an influx of bullion; and, according to your previous answer, a reduction in the amount of securities might or might not produce that effect, is it not probable that an influx or efflux of bullion depends upon the variations in the amount of the circulation, more than upon the variations in the amount of the securities?—*The variations in the amount of the circulation unquestionably, if operated upon distinctly to that extent, would produce it; but I conceive, that under the action of the public as we have seen it, there is no direct influence of the amount of the circulation upon the efflux or influx of bullion.*

3735. *Mr. Grote.* Your opinion is that so soon as the reduction in the circulation is carried to the extent of affecting the reserves of the private London bankers, it then does tend to exercise a direct influence upon the efflux or influx of bullion?—Yes, that is the limit within which I consider that a reduction of the circulation would operate.

3736. Do not you conceive that, in point of fact, the limit is very soon reached, even by a very moderate reduction in the amount of the aggregate circulation?—*Whatever limit that may be, there is no reduction in modern times that seems to have reached that limit.*

3737. Do you conceive that the utmost actual reduction which has taken place in the Bank circulation at any period within the last ten years, has been so small as not to affect practically the management of the London bankers and the amount of reserves?—When I said the amount of their reserves, perhaps I did not express myself with sufficient accuracy. *What I meant is the minimum of their reserves, that amount below which they would not consider themselves as being in a state of security in opening for business.*

3738. Is it not reasonable to suppose that the London bankers hold in general such reserve as is sufficient for their ordinary wants for the present time, and for such time as may be within the compass of reasonable anticipation and no more?—I should say that there must be much more latitude than that, otherwise the payments of London would never have been effected with the regularity with which they have been; the state of credit would not have been so generally maintained as it has been. *I conceive that London bankers can very rarely be in a state that does not admit of a very considerable latitude or surplus beyond a fair computation of their necessary wants for the supply of the demand by the public for bank notes.*

3739. Is it not a fact that in times of contraction of the aggregate circulation, and a drain of bullion, the feelings of caution naturally operating upon the London bankers lead them at such moments to require a larger proportional reserve than they would think necessary in times of ease and plenty?—Whenever the reduction in the amount of bank notes is carried to the extent that would induce the London bankers to reduce their advances, I am quite ready to admit that it would operate upon the value of the circulation, and in so far tend to favour the influx of bullion or to prevent its efflux. *I only speak of the obvious want of coincidence between the amount of the circulation and the variations in the other points, or, what I have called, the elements of the position of the Bank; namely, the apparent steadiness of the amount of the notes in circulation during certain periods, compared with the deposits and the securities, or the bullion; and that comparative uniformity indicates a very great degree of regularity in the demand for bank notes.*

3740. But do not you think that the actual fluctuations which take place, on ordinary periods throughout the quarter, in the amount of the bank circulation, are quite sufficient to affect very considerably the conduct of the private London bankers, that is to say, that in the scarce times of the quarter, London bankers are less free in their advances than they are in the plentiful times of the quarter immediately after the payment of the dividends?—I had understood that that had ceased to be the fact since the practice of the Bank in making the quarterly advances; but, however, I am not sufficiently acquainted with the details of banking to be justified in giving a confident opinion upon that point. I only observe, and I would take this very instance of the reduction in the amount of the circulation at the close of 1835, and the commencement of 1836, when it was quite notorious that the extension of credit, and of business generally, and of fresh enterprises, was on an extraordinarily enlarged scale, *in proof of the absence of any direct or necessary influence of the amount of the circulation: the amount of the circulation was then less than it had been for several years before; and, according to my former answer, in* 1833 *and* 1834, *when trade and credit were in a remarkably quiet state, the circulation stood very much higher.*

3741. Have you any positive reasons for your conclusion that the London bankers hold in general the large surplus reserve, to which you have alluded in former answers, which prevents them from being affected by any reduction in the aggregate circulation of the Bank of England, till that reduction has been carried to a very considerable extent?—As I said before, I am not sufficiently acquainted with the practice of London bankers to be able to give a confident opinion upon that point; all I mean to say is, that there have been considerable variations in the amount of the circulation, which seem not to have been accompanied with any corresponding influence upon the facilities of the money market.

3742. Do you think it wise or practicable for the Bank, keeping as it does a large amount of deposits in conjunction with its functions as an issuing body, to adopt the rule of keeping the amount of its securities fixed and unchangeable?—I am not prepared to give a decided opinion as to either the power of the Bank, or the expediency of the exercise of that power, to keep its securities under all circumstances even. *The view that I have of the best re-*

gulation of its securities by the Bank, is that which shall enable it to preserve most constantly a very considerable reserve of bullion compared with its liabilities.

3743. Are you of opinion that a mixed circulation of paper and coin ought to fluctuate in amount in the same manner and proportion as a metallic currency, if we had a metallic currency, would fluctuate?—I am not at all clear that in a mixed circulation of coin and paper, it is desirable that the fluctuations in the amount of the aggregate paper circulation should vary exactly with the variations in the amount of bullion; on the contrary, I believe that a variation in the amount of the circulation, corresponding exactly, or as nearly as might be, with the variations in the amount of bullion, would be exceedingly inconvenient, and occasion very frequent, and sometimes violent, oscillations in the rate of interest, or, as it is technically called, the money market.

3744. If the paper circulation is to be preserved constantly conformable in value to gold, must it not conform in quantity constantly also to gold?—*Not at all; as long as the paper is strictly convertible into gold, it cannot be said that the value of the currency is impaired; there may be a very considerable occasional demand for the export of the precious metals, without any ground of inference that the originating cause of it has been any excess of the circulation of this country; with a sufficient reserve of bullion on the part of the Bank, the probability is that the gold would in such a case return, and that there may have been no intermediate disturbance of that amount of the circulation which was previously not in excess as compared with the ordinary transactions of the country.*

3745. Do not you think that however large the reserve of gold in the hands of the Bank might be at the period when the foreign drain began, if the Bank were either to increase the quantity of bank notes in circulation, or even to decline contracting them during the course of that drain, the probability is very much indeed increased of the drain continuing to such an extent as to exhaust the Bank reserve of bullion, and thus to frustrate the possibility of maintaining the convertibility of the bank notes? —I believe that, with a large reserve of bullion at the commencement of any drain, if the Bank simply kept their securities from increasing beyond the amount which, previously to the drain, they found that they had been able to preserve, without any obvious effect in causing an ex-

treme depression of the rate of interest, they might retain that amount of securities; and then, consequently, in all probability there would be no material alteration of the circulation. The Bank might allow, to some extent, the drain to proceed without any forced operation, beyond a very moderate rise in the rate of interest. I can conceive of hardly any circumstances which would not enable it, *always supposing a large average reserve*, to maintain very nearly the same amount of the circulation, except in as far as it might be acted upon by the public, consistently with admitting of a reflux of bullion.

3746. Does it not seem to you if the Bank were to permit the circulation of bank notes to be diminished, in exact proportion with the bullion which was demanded from them for export, that such diminution would have the effect of causing the demand for export to subside much sooner; in as much as a smaller quantity of gold would suffice for the purpose of assimilating the value of the currency of this country to that of foreign currencies? —Yes, I believe that might be the case; but it would be attended with more frequent and greater fluctuations in the rate of interest: and I should say, as a general position, that the management of the amount of the paper circulation will be attended with greater or less uniformity in the rate of interest, according as the proportion of bullion is greater or less. I remember perfectly that the late Mr. David Ricardo supposed that you might maintain a circulation of paper by bullion payments, in the proportion of 25,000,000*l.** of paper to 3,000,000*l.* bullion. Now, taking that as a possible case in theory, it would, if attempted to be acted upon, be attended with variations in the rate of

* Speaking as I did from memory, I have made a mistake in stating 25,000,000*l.*: it should have been 24,000,000*l.* according to his evidence before the Committee of the House of Commons on Cash Payments, in 1819. The following is the passage in Mr. Ricardo's evidence in which the statement occurs:—

Q. 28.—What in your judgment would be the necessary reserve of coin for the larger notes, according to the old plan: and what would be the amount of bullion to answer the demand, according to your plan?

A.—I have already observed they would in my opinion be equal, and must depend upon the knowledge of the Bank of the principles of money. I should think that a reserve of *three millions* would, under good management, be amply sufficient, upon a supposition of *twenty-four millions* of Bank of England notes in circulation.—(*Commons' Committee on Cash Payments*, 1819, p. 187.)

interest which I think would hardly be less, than occasionally down to 3 and 4 per cent., and sometimes up to 30 and 40 per cent. *In the management of a convertible paper currency, whether you have separate departments or not, you must have a large reserve of bullion in order to obviate very great fluctuations in the rate of interest; and, with a sufficiently large amount of bullion, I still repeat, habitually preserved,* (that is supposing that the Bank should undertake to regulate its issues upon a reserve of bullion much larger than has been thought necessary, particularly in the interval between 1834 and 1838,) *there would be much fewer violent alterations in the rate of interest than if there were a separation of the departments, and the deposit department of the Bank of England were not to be considered bound to hold so large a reserve in proportion, as would be considered requisite for the two departments as they are at present united; and, under the union with that increased habitual reserve, the variations would be less than under a separation; even supposing the deposit department had in the latter case a much larger habitual reserve, than it is likely that any mere bank of deposit would have.*

3747. Is it your opinion that it is possible to name any amount of reserve which will be sufficient, under all circumstances, to protect the country against the danger of suspension of specie payments, on the supposition that the Bank, during a foreign drain, abstained from any measures of contraction, and suffer their circulation to remain unaltered in point of amount?—I do not go the length of saying that the Bank should be perfectly passive under a drain, I only mean to say, that, giving it credit for sufficient prudence upon the ordinary principles of banking, where a certain amount of reserve is assumed to be requisite it might take measures which would have the effect of moderating, if not stopping the drain; and yet not act very forcibly upon the money market, and not in the slightest degree affect the amount of the circulation.

3748. Will you have the goodness to explain what you mean by not being perfectly passive, upon the supposition that the amount of the circulation is left unaltered?—I should take, as an instance, the passive state of the Bank under a drain; their conduct during the two drains that occurred in 1828 and 1829, and again from 1830 to 1832. Under the latter drain, particularly, they sustained a very great diminution of treasure without the slightest forced operation on their part to counteract it; and yet you can-

not conceive a state of things upon the whole more threatening a continuance of a severe drain than that, for it was during a state of partial war upon the continent of Europe; there was also a very large importation of foreign corn, and there was a great deal of internal insecurity; *and yet the Bank, without the slightest effort, allowed the drain to proceed to a very considerable extent, and to the loss of* 6,000,000*l. of treasure, which returned spontaneously with nearly as full a tide as that with which it went out.*

3749. *Mr. Warburton.* What course do you apprehend the Bank did take in the drain from 1830 to 1832?—*It allowed the public to act exclusively upon its position.*

3750. Did it allow its paper circulation to diminish at the same time that its bullion diminished?—*They took no measures to cause a diminution.*

3751. *Mr. Grote.* Was the paper circulation diminished at the time that the bullion was in the course of diminution?—*The circulation was diminished, but it was diminished by an internal demand, and not by any act of the Bank.*

3752. (*Chairman.*) Was the amount of bank notes in circulation diminished by an internal demand?—What is meant by the expression "internal demand," was the "action of the public." "*The Bank took no measures whatever in* 1828, *or* 1832, *as far as I can understand, to counteract the drain in either of those two periods.*

3753. *Mr. Grote.* Then would it be a course of conduct that you would recommend to the Bank Directors that, during the pressure of a foreign drain, they should take no measures for diminishing the amount of bank notes in circulation in any way corresponding to the efflux of bullion?—*I should have no idea of the propriety of their operating distinctly with a view to the circulation, but I think that they should take measures for a moderate pressure upon the money market; that is, to raise the market rate of interest; the rate of interest being the great medium through which the efflux or influx of bullion in the first instance takes place.*

3754. Do you conceive that the Bank Directors could, to any considerable degree, raise the rate of interest without at all diminishing the number of notes in circulation?—*I conceive that they might raise the rate of interest within a moderate degree, and yet not affect the amount of notes in circulation.*

3755. But is it your opinion that they could, to any considerable degree, raise the rate of interest, without

diminishing the amount of notes in circulation? — *To a considerable degree, perhaps not; but it is difficult to form a very distinct opinion, and still more so to deliver a judgment upon questions of degree.*

3756. Unless the rate of interest were considerably raised, does it appear to you that much effect could be produced for the purpose to which these questions have been referred, namely, that of arresting the drain of bullion for export? — *With a very large reserve at the commencement of the drain, I do think that they might abate it without any violent operation on the rate of interest.*

3757. But in point of fact, according to the course which you recommend, there would be no abatement of the drain at all, excepting that which arose from the positive paying away of so much gold to foreign countries; there would be no abatement arising from any diminution in the circulation of this country? — No; exactly.

3758. That being the state of the case, does it seem to you that a moderate rise in the rate of interest, such as the Bank might possibly produce without any contraction of its circulation, could have any sufficient effect in arresting the drain of bullion under those circumstances? — I think it could always; *assuming that there was a very large reserve at the outset;* for very considerable effect is constantly produced in variations, within short periods, of the treasure, by variations in the rate of interest; inasmuch *as those variations, although only within a moderate degree, are attended with a greater or less inducement to negotiation of foreign securities in this country, or to the influx of foreign capital into this country for investment, every fluctuation in the rate of interest that can be said to have any perceptible influence at all, operates directly in that way.*

3759. Would it not be the natural consequence of the course of management which you recommend, that the drain for bullion for export would proceed much further than if measures of contraction were resorted to on the part of the Bank; therefore, assuming that the Bank reserve of bullion was not entirely exhausted, would there not be at any rate a corresponding difficulty in recovering the bullion so lost? — *I should apprehend not: because, by the supposition the export of bullion does not arise from any previous excess in the amount or value of the circulation of this country, but simply from some casual payments which can only be effected through the medium of the export of the precious metals.*

3760. Then, is it your opinion that the course of action to be pursued by the Bank, whenever a drain of bullion arises, would depend upon its being able to determine with accuracy what the causes are from which that drain proceeds?—I presume that the Directors must have some general knowledge of the nature and causes of the drain; at the same time, my answer would not absolutely depend upon that. I beg not to be understood as saying that the Bank ought to be perfectly passive under a drain. *All I mean to say, is, that with a large amount of treasure at the outset of it, there would be very little occasion for a violent effort on the part of the Bank, in order to abate or stop the drain by operating upon its securities.*

3761. My question referred not to the amount of the securities, but to the amount of circulation. I understand, that, in certain cases where the Bank could determine with accuracy that the drain of bullion arose from no cause connected with the previous excess in the currency, you are of opinion that the Bank need not diminish the amount of its notes in circulation, even though the drain might proceed to a very considerable extent?—I should still say that *the only view I have of the power of the Bank, is that of operating upon its securities, and that it is on the rate of interest, and not on the amount of the circulation, that it would operate in abating or stopping a drain.* And far from saying that the Bank ought to be perfectly passive, I think that, looking to whatever may be the reduction which their treasure is undergoing, they should take the precautions which would obviously present themselves as means of increasing the rate of interest, or, in other words, of some forcible action upon the securities. *The utmost extent of the view that I entertain upon the subject is, that, with a large amount of treasure, and under a union of the departments of banking and issue as at present conducted, a very much less violent operation upon the securities would be requisite, than would be requisite if the Bank was separated as a bank of deposit from a bank of issue.*

3762. It appears, by the returns laid before the committee of 1832, that the stock of bullion in the hands of the Bank on the 31st August, 1824, was 11,787,000*l.*; does it not appear to you that the Bank, having so far relied upon that large store of bullion as to have refrained from taking any steps for contracting the circulation during the course of 1825, adopted an unfortunate course of policy, and one which contributed in a considerable degree to aggravate

the commercial misfortunes which arose at the end of 1825?—I conceive that the great error of the Bank in 1824 and 1825, was not so much in not acting forcibly in a reduction of their securities in 1825, as in having added, by a very violent operation, to the securities at the close of 1824, which had the effect of allowing the very much greater extension of the spirit of speculation and of general overtrading which prevailed in the spring of 1825. I am not at all sure that if they had made any forced action on the securities in 1825, they would not have been charged with all the consequences which ensued, as resulting from an act of theirs. At the same time, seeing the extent to which the drain was going, they ought, in point of strictness, unquestionably to have taken measures for reducing their securities more rapidly than they did. But nothing after the spring of 1825 could possibly have prevented the catastrophe which eventually occurred. They would probably have hastened it, and so far have hastened the reflux of bullion. *But after the spring of* 1825, *I have no idea that any act of the Bank could have prevented the great destruction of private credit which then occurred.*

3763. Do not you think that measures for diminishing the amount of bank notes in circulation somewhat in proportion to the efflux of bullion, if such measures are taken at the time when the efflux of bullion first begins, are attended with a less degree of inconvenience and pressure upon the money market than if such measures are postponed until the drain shall have continued for a considerable time and abstracted a considerable quantity of bullion?—I should say that that would very much depend upon the circumstances of the case. It would depend very much upon the state of trade and of credit at the time. But, as a general proposition, I should imagine that variations of the money market to some extent would be, as I said before, very frequent; and after all it would be very requisite to state some line which should constitute what is called the commencement of a drain; because there may be a demand for foreign payment that would not in all probability extend beyond a million or two; that is constantly occurring, and I apprehend there would be a good deal of inconvenience if the Bank attempted to operate upon the circulation to that extent upon every variation occurring in the amount of bullion.

3764. Is it not the fact, that the longer the measures of contraction and protection of the Bank are postponed, the

more stringent they must be made in order to accomplish the object; and is there not, in point of fact, a degree of alarm, which arises out of the very fact of the stock of bullion having decreased very much, which, to a great degree, aggravates the effect of the measures of precaution taken by the Bank, if they are applied for the first time during a low state of the bullion?—Yes; I am perfectly ready to acquiesce in all that is stated in the question. At the same time, I conceive that, always supposing that the Bank regulate their management with a view to the preservation of a large amount of bullion, they would take such measures as would abate the drain before it reached such a point as should cause the alarm which is supposed in the question. For instance, if at the commencement of the drain in 1838, instead of apparently favouring, but, at all events, not taking any measures to counteract it, under the threatening circumstances which were in prospect, they had taken earlier measures to raise the rate of discount, or to reduce their securities, the subsequent drain would probably have been abated; and, according to my supposition, if they had 15,000,000*l.* instead of 10,000,000*l.* at the commencement of 1838, and they had acted as they did in the instance of the drain from 1830 to 1832, there would not have been a reduction of treasure sufficient to have excited any thing of alarm, or any of the inconveniencies that attended the state of uneasiness which the reduced treasure of the Bank towards the close of 1839 occasioned.

3765. Then, do you think that at the time when a foreign drain commences, although the Bank of England ought not to take any measures for suffering its circulation to diminish, it ought to take measures for correcting that drain by raising the rate of interest?—Yes; within certain limits. I have no hesitation in saying practically, as a matter of business, what I imagine would be the case, that, in ordinary fluctuations, such as would be constantly occurring in the negotiation of foreign loans, and other circumstances causing a demand for bullion, there might be an efflux to the extent of 5,000,000*l.*, and between the limits of 15,000,000*l.* and 10,000,000*l.* the Directors would take no active measures; but when the treasure got below 10,000,000*l.* they would take such measures as, under the present system of considering 10,000,000*l.* as their maximum, they were proposing to take when the bullion was reduced to 5,000,000*l.*

3766. How can you be sure, upon your system, that the foreign drain shall never commence except at the moment when the Bank reserve of bullion is at its maximum? — I imagine that the Bank Directors would be able to explain that point. If they could not undertake to regulate their issues upon an amount of bullion that was very considerably larger than that, which, judging from the management between 1834 and 1836, they seemed to have thought sufficient, then I should say there is no security against exhaustion.

3767. In case the drain should commence at a period when the Bank reserve of bullion was short of 15,000,000*l.*, would you consider that it would be requisite for the Bank to suffer the circulation to diminish in proportion to the efflux of gold? — *I still do not think that introducing the circulation as a distinct part of the action of the Bank gives the correct view of it. I conceive that the whole question, whether the Bank can or cannot maintain a certain average amount of reserve, which is in bullion, turns upon their management of the securities. The circulation may in some cases be affected by it, or not, but the Bank directors can only look to variations in the amount of their securities.*

3768. But ought they not to consider the variations in the amount of securities as a means of operating upon the amount of circulation? — There may be a very considerable improvement in the value of the circulation without any reduction in the amount of it. *The Bank may operate within considerable limits upon the rate of interest without affecting the circulation in amount, but considerably in point of value.*

3769. (*Mr. Warburton.*) Would the raising of the rate of interest produce any effect upon the exchanges, unless it occasioned a diminution in the application for discounts, and therefore in the amount of the circulation? — It would produce a decided effect upon the exchanges, at the same time that there would, in all probability, be an increase in the amount of the issues*, through the medium of discounts: the effect upon the exchanges of a rise in the rate of interest would be that of inducing foreign capitalists to abstain from calling for their funds from this country to

* This must clearly have been an inadvertence on my part. According to the whole tenour of my evidence, I must either by the word "issue" have meant securities, or, if it meant circulation, my answer should have been in the negative.

the same extent as they otherwise might do, and it would operate at the same time in diminishing the inducements to capitalists in this country to invest in foreign securities or to hold foreign securities, and it might induce them to part with foreign securities in order to make investments in British stocks or shares. It would likewise operate in restraining credits from the merchants in the country by advances on shipments outwards, and it would have the effect of causing a larger proportion of the importations into this country to be carried on upon foreign capital.

3770. Then you apprehend that would increase the number of applications for discount?—Yes; supposing that the market rate was raised up to or beyond the Bank rate.

3771. Then do you mean that the more a man has to pay for the use of money, the more likely he is to apply for it?—No; that is not my view of it; by the supposition the market rate would be raised up to or beyond the Bank rate. In that case, even supposing the total number requiring discounts not to be increased, a larger proportion of them would apply to the Bank. And, in point of fact, it has invariably happened that, when the market rate of interest has been low, there have been few applications to the Bank for discount, while they have increased with every advance of the Bank rate, provided that such advance was kept within the market rate.

3772. (*Mr. Grote.*) Does not the course of management which you recommend amount to this, that, if a foreign drain begins when the Bank has in its coffers a reserve of 15,000,000*l.* of bullion it can afford to pay out and should pay out 5,000,000*l.* of that reserve previously to resorting to any measure for contracting the currency; but that if the drain should proceed beyond the 5,000,000*l.* their measures of contraction and of protection to the Bank treasure must be resorted to?—Yes; that is my opinion.

3773. Then after the 5,000,000*l.* are away, it is your opinion that the Bank ought to contract its currency?—Yes, I admit that the Bank ought to take measures when it has got below that which should be considered as the medium which it should conduct its management upon, and that the probability is that the sending abroad of so large a sum as 5,000,000*l.*, would of itself be sufficient to meet *any ordinary fluctuation* in international payments, requiring bullion as the mode of effecting them without any material disturbance in the amount of our circulating medium.

3774. But still, if it should happen that the drain goes on to an extent to carry the reserve of the Bank below 10,000,000*l.*, you would be of opinion that contraction on the part of the Bank ought not to be any longer postponed? — Exactly.

3775. Consequently, under the supposition that a foreign drain began at a period when the Bank reserve was only 10,000,000*l.*, you would consider that the Bank ought to contract the circulation for the purpose of protecting itself without delay? — Yes; that it ought to operate upon the securities, *at the same time it might do so without necessarily affecting the circulation.*

3776. But that it ought to take some positive precautionary measures? — Yes; such as the bank directors would say it would be in the power of the Bank to take, *just as any prudent private banker, having, generally speaking, a large reserve, would be able to take measures of precaution whenever he saw that the tendency was to a larger demand upon him than usual.*

3777. Would it be possible for any private banker to take precautions without diminishing the extent of accommodation which he afforded to the public? — I should say that they might diminish their liabilities; but they could only do that by parting with their securities, or not renewing those which were running off.

3778. Would not the direct effect of such parting with the securities be to contract the circulation? — *It might or might not: it would diminish their liabilities, but it would not necessarily operate upon that part of the liabilities which consists of circulation.*

3779. Does it not seem to you, then, that the scheme of management which you recommend for the circulation of the Bank would be, that the Bank should artificially keep up the rate of interest, and contract its circulation during a period when there was an influx of bullion for the purpose of making that influx of bullion last still longer, and go to a greater extent than it would naturally do under a metallic currency, in order that the Bank might be able, when an efflux of bullion commenced, to postpone the necessity of contracting until that effect had been carried to a certain extent? — Precisely. I would beg leave to observe that that state of the circulation, and, as I conceive, the benefits arising from it, were exhibited in a very striking degree in the interval of five years, corresponding, in some respects, with the years from 1833 to 1837. Those

five years occurred fifty years ago. After t' e severe drain which the Bank experienced in the year 1783,—during the progress of which drain they were under the necessity of operating very violently upon the securities, because they had rather a low amount of treasure,—the reflux of bullion was such, that, having in 1783 been reduced to 590,000*l.* or thereabouts, it reached, in 1788, 5,743,740*l.*; in 1790 it was 8,633,000*l.*, and it continued at upwards of 6,000,000*l.* till February 1702. Now, if you double the amount of the circulation and deposits as they stood in February, 1790, it would make the liabilities amount to what they were at the close of and during several periods in 1834 and 1835. In 1834, I see they reached above 34,000,000*l.*: in February, 1790, the liabilities were 16,263,000*l.*: the securities were 10,332,000*l.* Now, if you double the liabilities, you will find that they would amount to 32,526,000*l.*, and the securities to a little above 20,000,000*l.*, and the bullion would, if doubled, be 17,200,000*l.* The bullion continued at about 8,000,000*l.* till 1792: the foreign exchanges took an adverse turn in that year, and there was a drain down to 5,000,000*l.* In the autumn of 1792, and the early part of 1793, there occurred a total derangement of the country circulation; but the Bank then was in a state of such perfect ease, that, without any special interference, and without any alteration in the rate of its discount, it was enabled to increase its discounts, which, in August, 1791, amounted to 1,898,000*l.* to 6,456,000*l.* in February, 1793; and to supply guineas, there being no Bank of England notes at that time under 10*l.*, the bullion was reduced to 4,010,000*l.*: but that would have been equal compared with their general liabilities to 8,000,000*l.* of bullion in 1836. The period of discredit and derangement went off, and there was soon after a reflux of bullion, the increase between February and August, 1793, having been 1,300,000*l.* I ought to have mentioned that the Bank did not alter its rate of discount from 5 per cent. during the whole of that period. The increase in the discounts was very nearly 5,000,000*l.* during the period of discredit, without any disturbance of the feeling of security respecting the position of the Bank, as to the power of maintaining the convertibility of its paper. Now, I should beg to contrast that state of things with that which occurred in 1836. If the Bank, instead of being reduced to about 4,000,000*l.* in the autumn of 1836, or the spring of 1837, had only been

reduced to 8,000,000*l.* of bullion, its position would have been in every respect very different, and the general state of things would have been different; because there is no doubt, that the reduced state of bullion at that time operated as a great cause of general uneasiness. Will the committee allow me to put in this paper, containing a statement of the position of the Bank in the former period that I have alluded to.

(The witness delivered in the same, which was read as follows:)

	Circulation.	Deposits.	Liabilities.	Securities.	Bullion.	Assets.	Rest.
	£	£	£	£	£	£	£
1788 Feb.	9.561.120	5.177.050	14.738.170	11.864.510	5.743.440	17.607.950	2 860.780
August	10.062.880	5.528.640	15.531.520	11.570.320	6.899.160	18.469.480	2.937.960
1789 Feb.	9.307.210	5.537.370	15.344.580	10.960.690	7.228.730	18.189.420	2.844.840
August	11.121.800	6.402.450	17.524.250	11.697.760	8.645.860	20.343.620	2.819.870
1790 Feb.	10.040.540	6.223 270	16.263.810	10.332.120	8.633.000	18.965.120	2.701.310
August	11.433.340	6.199.200	17.632.540	12.003.520	8.386.330	20.389.850	2.757.310
1791 Feb.	11.439.200	6.364.550	17.803.750	12.602.640	7.869.410	20.472.050	2.668.300
August	11.672.320	6.437.730	18.110.050	12.819.940	8.055.510	20.875.450	2.765.400
1792 Feb.	11.307.380	5.523.370	16.830.750	13.068.560	6 468.060	19.536.620	2.705.870
August	11.0 6.300	5.526 480	16.532.780	13.905.910	5.357.380	19.263.290	2 730.510
1793 Feb.	11.888.910	5.346.450	17.235.360	16.005.250	4.010.680	20.015.930	2.780.570
August	10.865.050	6.442.810	17.307.860	14.809.680	5.322.010	20.131.690	2.623.830

3780. Is it not essential to your system, that, during a period of influx of bullion, the Bank should have it in its power to keep up the rate of interest; and could the Bank possibly do this during such a period without a very violent action upon its securities, and upon the circulation, during a period which is usually called one of great plenty of money? — I conceive that that is a period generally in which the Bank may manage with the greatest ease, either to preserve or to replenish the amount of its treasure, by simply allowing its securities to run off without re-investment, as long as it is desirable to accomplish that object; and that appears to me to have been very much the state of the case in the period of the last century to which I have alluded.

3781. But has not it happened during several periods that, the Bank rate of discount having been kept above the market rate, nearly all the discounts in the Bank of England have run off, and still the market rate of discount did not rise up to the Bank rate? — Certainly; that was the case in 1822.

3782. And, that being the case, would it be practicable for the Bank, under such circumstances, to raise the rate of interest, so as artificially to produce a greater influx of bullion, without very violent action upon the remainder of

its securities, and a corresponding contraction of the circulation? — *I do not think it would act upon the circulation at all: I think the circulation would be kept up in a great measure by the* influx of the gold: the gold would naturally go into the Bank, as a deposit, or in exchange for notes; and in that case, taking the supposition in the question, there would be every inducement to take it out in notes.

3783. The object of the question is to know, what means the Bank would have of artificially keeping up the rate of interest, which is the means by which you suppose the Bank is to produce a large import of bullion? — I conceive that if they reduced their securities sufficiently low, it is impossible but that the gold must more or less flow in to preserve the general value of the circulation: the general value of the circulation is not determined by the amount of Bank notes — the general value of the circulation is determined by the exchanges.

3784. Under those circumstances, if the Bank could by any means raise the rate of interest up to such a point as to cause the influx of bullion to continue beyond its natural amount; if they could do it by any means, would it not be requisite that they should operate in a very violent manner by the sale of Exchequer bills, or the securities independently of discounts? — No; it does not appear to me that that would be necessary at all. So far from a violent action, it appears to me, that it would require them to be passive. If upon the efflux of some of their existing securities no re-investment took place, which could not be supposed to produce any violent action, I have no idea that there would be any material disturbance of the value of the circulation as connected with internal purposes in the process that is supposed in the question.

3785. But in the case which you supposed, and according to the system which you propose, would it not be the duty of the Bank of England not to be passive, but to interfere actively for the purpose of prolonging the influx of bullion beyond its natural extent? — I doubt the propriety of the term "actively" used in the question. I think, simply, by keeping down the amount of its existing securities, and allowing the efflux of those which were running off without re-investment, the effect would be produced without any effort on the part of the Bank. I am supposing that the circumstances of trade are such as not of themselves to entail any disturbance one way or the other. I will, for instance, take the period that has

been alluded to, namely, 1834. I contend that, if the Bank had kept its securities (not that I wish to commit myself to a general opinion as to the propriety of keeping the securities even or not) rather below than above 24,000,000*l.*, the probability is that, through that and the following year, they would have maintained a larger amount of bullion. At the same time, if it had required a reduction of the securities to 22,000,000*l.* or 20,000,000*l.*, I should still say that it was incumbent upon the Directors to have effected that upon the system which I have suggested, supposing they had been acting upon that before. I do not mean to say that they ought to have done it: but, in supposing, as a distinct opinion which I entertain, that they cannot conduct such an amount of liabilities as they have had during the last three or four years with so small an amount of bullion as they have had, for a considerable part of that interval, I have assumed, that, if they found, with an amount of 24,000,000*l.* of securities, the bullion either went out or did not come in to a sufficient extent, they would reduce the securities. I consider that, with, a view of maintaining the proper amount of bullion, they should not in all cases retain the same amount of securities; and if a designed reduction of securities be desirable with that view, it will be most conveniently effected by sales on the part of the Bank when the prices are high, or, in other words, when the market rate of interest is low.

3786. (*Mr. Warburton.*) Then your plan is, that they should not commence operating upon the exchanges the moment they saw that there was a turn in them, but that they should allow the drain to run on for a considerable period before they took any step whatever?—Yes; that is what I should distinctly suggest as the more convenient mode of management, *provided always they had in view so to regulate their securities, as to preserve on an average a very considerable amount of treasure.*

3787. Do you not believe that the exchanges would be kept more steady, and would not run so much into extremes, if, at an earlier period than you recommend, they endeavoured to alter the course that the exchanges were taking?—The exchanges would, doubtless, in that case, not undergo the same extent of variation; but the circulating medium and the general scale of transactions in the country would be interfered with or disturbed in a much greater degree, by the Bank operating upon its securities upon every turn of the exchanges.

3788. Do you mean to say that the inconvenience produced to the mercantile interest, the monetary pressure would be less in amount than it now is, or less frequent? — Both.

3789. Do not you apprehend that the monetary pressure, in case of a drain, depends in extent very much in the degree to which the exchanges are adverse? — I do not apprehend so, excepting so far as the continuance of that state involves ultimately the necessity of strong counteracting measures on the part of the Bank.

3790. Then do you not apprehend, if the drain is allowed, as you propose, to run on for a considerable time, that, supposing the drains till to continue after the Bank treasure has been reduced 5,000,000*l.*, stronger counteracting measures are necessary in that case, than if the counteracting measures had been had recourse to at the moment the exchanges began to turn? — I do not think that the consequences involved in the question would follow. A reduction of 5,000,000*l.* might take place and no further drain ensue. If restrictive measures were only to commence when the Bank treasure had got down to 10,000,000*l.*, they would be very different in effect, or in the chance of disturbance of the general mercantile course of affairs, from what they would be if the drain, as heretofore, were allowed to proceed till the treasure was reduced to 5,000,000*l.* A very moderate exercise of precautionary measures would, in my opinion, be requisite, after the efflux of 5,000,000*l.*, to prevent such a further efflux as would place the Bank under the necessity of eventually adopting any very violent measures.

3791. The reason you have given for not commencing to reduce the circulation immediately that the exchanges turned, is, that it would occasion inconvenience to the mercantile interests. Is not that so? — No; I might have said so; but what I meant was, that it would occasion a disturbance in the general scale of transactions in the country, in as far as uniformity of the circulating medium in connexion with the ordinary transactions of the country was concerned. I should use the term general convenience rather than strictly mercantile convenience, for I consider it to be a matter of general convenience that fluctuations, in the rate of interest, should not be either abrupt or violent.

3792. Which do you consider to be the principal duty of the Bank, to occasion an uniform rate of interest in the

country, or to look to the preserving of the convertibility of its notes as its primary duty? — *I consider maintaining the convertibility of its notes is its primary duty; and, if the preservation of a moderate uniformity of the rate of interest were incompatible with the perfect security of the convertibility of the paper, I should without hesitation say, that every consideration of convenience ought to give way to the preservation of the principle of convertibility.*

3793. Have you not said that the fluctuations in treasure would be much less if the Bank commenced to operate immediately, than if it allowed the drain to proceed before it commenced its measures of contraction? — Yes.

3794. Then do you not think, that if it operated immediately the momentary deviation from the mean in the amount of the circulation would be much less than the deviations that did take place, or which would take place according to the system you recommend? — In the first place, I should think it hardly possible to prescribe or define exactly the line which you should call the commencement of a drain, and, therefore, a forcible operation by the Bank upon its securities such as proposed, would, I believe, be infinitely more inconvenient than the application of precautionary measures, when it should appear that the drain was one that, from its general appearance, threatened a continuance below the amount at which I consider that precautionary measures might be dispensed with. *But there is one point which seems to me to be assumed in all the questions hitherto upon this point; that the amount of the circulation is that part of the position of the Bank which should be looked to for redressing the exchanges:* whereas, in point of fact, if the bankers generally, or the deposit department of the Bank, happened at the time that the demand for foreign payments occurred to have large reserves, the circulation might be preserved without alteration, notwithstanding a considerable efflux of the metals. I can easily imagine a state of things in which, even supposing that there was a separate Bank of issue from the banking department, there might be a drain for foreign payment to the amount of 3,000,000*l.* or 4,000,000*l.*, requiring an efflux of the precious metals to that amount, which would be supplied entirely out of such reserve, and therefore would leave the circulation without any alteration at all. I never understood whether that case was included in the theory of the fluctuation of the circulation corresponding with the variation that would take place in a metallic currency.

3795. Does not your supposition depend entirely upon this, that you assume the reserves which the London bankers held as deposits in the Bank of England greatly exceed the amount which it is necessary for them to keep as reserves, to meet the demands of their own depositors? — It may be so; and I raised the question for the very purpose of stating that, on the supposition that the reserves of the bankers, and more especially the reserve of the deposit department of the Bank of England, happened to be low coincidentally with the commencement of a drain, and taking the rule proposed for variation as in the metallic circulation, the pressure would be extreme.

3796. Does it make any great difference as it regards the facilities of the money market, whether the Bank reduces its circulation by the sale of securities, or by diminishing the amount of its discounts? — The forcible diminution of its discounts, by which I mean limiting the amount to be discounted, or shortening the period of the bills, would have a very much more violent operation than the sale of public securities; but that would be only in so far as the public had previously been accustomed to an unlimited extent of discount, varying only in the rate.

3797. By selling its securities, does it not diminish the amount of the circulation held by the bankers? — I do not mean in the slightest degree to question the correctness of the general principle, that if, with a view to contraction, and to increasing the value of the circulating medium, the Bank wish to reduce their securities, it is immaterial, for the main purpose, whether it is done through commercial discounts or by the sale of public securities: I only mean, that, considering that the Bank are looked to as a constant resource by the great discount brokers, it would have a prodigious effect if there were to be any forcible narrowing of the discounts.

3798. Are you of opinion that it is the duty of the Bank to do what is called "*uphold the credit of the country*," in times of monetary pressure, to such an extent as to lessen the convertibility of its own notes? — Certainly; that is not the duty of the Bank. I conceive that its first care should be the convertibility of its paper.

3799. And, therefore, whatever degree of pressure may arise to the mercantile interests by the Bank adhering to the principles of maintaining the convertibility of its notes, that pressure ought rather to be undergone than that the convertibility should be endangered? — I have no question

but that it is the duty of the Bank, at all events, to maintain inviolable the fulfilment of its own engagements; that is the first duty of all bankers.

3800. What is your opinion of the recent act for suspending the operation of the usury laws with regard to bills of exchange?—I have not, nor ever had, any doubt that the working of the recent act has been of unmixed advantage.

3801. And, according to your view of the working of the currency, the allowing so large a margin to the rate of interest which the Bank may charge is eminently conducive to the proper working of the Bank? — Yes; at the same time I beg leave to observe, that, if the Bank manage their securities with a view to the preservation of a large average amount of bullion, their operation on the market rate of interest, by alterations in their rate of discount, will be comparatively on a very small scale.

3802. Admitting that the Bank may produce an influence upon the market rate of interest for short periods, do you believe that the Bank has it in its power to regulate the rate of interest altogether? — No; certainly not for a length of time.

3803. Therefore, if, during considerable periods, the market rate of interest is high or low, you do not consider that the Bank is to be blamed for that? — No; not at all.

[My evidence from question 3624 to 3720 inclusive has been omitted, because, —

1. The length of it is such, that, if added to these extracts, the space that the whole would occupy would be altogether disproportioned to the other contents of this volume, insomuch that, doubtful as I have been whether the extracts I proposed to insert were not too long, I should, if the only alternative had been to give the whole or none, have determined on the latter.

2. The points involved in the parts omitted, although important with reference to the questions as to the management of the Bank in the interval between 1832 and 1836, and especially to that part of its management which related to its employment of the surplus funds of the East India Company, and of the deposits on account of the West India loan in 1835, have no immediate bearing upon

the purpose for which the portion of the examination here introduced is given.

That purpose is to exhibit my views as stated to the Committee, on the following points: —

1. That prices are the consequence, and not the cause, of variations in the circulation, that is, of bank notes in the hands of the public.

2. That the Bank had not the power of acting directly on the amount of its circulation.

3. That it was exclusively through the medium of its securities, that the Bank could operate on the foreign exchanges.

4. That the management of the Bank would be best regulated, with a view of the convenience of the public, consistently with the constant maintenance of its payments in cash, by the possession of a very large average amount of treasure.

It can hardly fail of being observed, on the perusal of this examination, how totally inaccessible the Committee were to the points of view which I endeavoured to impress upon them. Sir Robert Peel was not present at any part of my examination.]

Extract from the Report of the Select Committee on the State of Commercial Credit. April 25th, 1793.

A spirit of commercial speculation and commerce had been for some time increasing in every part of the kingdom, and had now got to such a height as to threaten public credit with very serious danger.

The circulating specie being by no means sufficient to answer the very increased demands of trade, the quantity of paper currency brought into circulation, as a supplying medium, was so great and disproportionate, that a scarcity of specie was produced, which threatened a general stagnation of the commercial world.

In consequence of this alarming state of public credit, on the motion of Mr. Pitt, a select committee was this day appointed to take into consideration the present state of commercial credit, and to report their opinion and observations thereupon to the House.

April 29. — The Lord Mayor reported from the said Committee, That the Committee had made a progress in the matter to them referred, and had directed him to make the following Report: —

Your Committee have thought it incumbent on them, in proceeding to execute the orders of the House, to direct their attention to three principal points.

1st. Whether the difficulties at present experienced, or the probability of their continuance and increase are of such urgent importance to the public interest as to require the interposition of the Legislature?

2nd. On the supposition that such interposition should be deemed necessary, what is the most practicable and effectual plan which can be adopted for giving relief?

3rd. What means can be suggested for preventing the renewal of similar inconveniences?

The consideration of the first and second heads appeared in some measure blended together; and the third, though of great importance, appearing to be less urgent in point of time, your Committee have thought it proper to submit to the House such considerations as occurred to them upon the two first points, reserving the latter for a separate report.

Under the first of these heads, the notoriety of failures to a considerable extent, the general embarrassment and apprehension which has ensued, the consideration of the necessary connection between different mercantile houses, and their dependence on each other, and the influence which the state of commercial credit must have upon the trade, the revenue, and general interests of the country, appeared sufficient, without minute examination, to satisfy your Committee that the present situation strongly called for an immediate and effectual remedy, if any practicable plan could be suggested for that purpose.

In addition to this, the Committee had an opportunity of collecting from several of their own members information, grounded either on their general observations upon the subject, or on their own immediate and personal knowledge.

Your Committee, understanding that some suggestions on this subject had been laid before the Chancellor of the Exchequer, on the part of several persons of great eminence and respectability in the city of London, were of opinion, that a communication of these suggestions would be very material to the objects of their inquiry, with a view of

ascertaining the opinion of persons of this description, both with respect to the necessity of some remedy, and to the particular mode in which it might be applied.

The Chancellor of the Exchequer accordingly laid before the Committee a paper which had been delivered to him on the 23d instant by the Lord Mayor and Mr. Bosanquet, which is inserted in the Appendix to this Report: he also stated to the Committee the circumstances which had led to this paper being drawn up. That he had received representations from many different quarters, which induced him to believe that the failures which had taken place had begun by a run on those houses who had issued circulating paper without being possessed of sufficient capital; but that the consequences had soon extended themselves so far as to affect many houses of great solidity, and possessed of funds ultimately much more than sufficient to answer all demands upon them, but which had not the means of converting those funds into money or negotiable securities in time to meet the pressure of the moment.

That the sudden discredit of a considerable quantity of paper which had been issued by different banks, in itself produced a deficiency of the circulating medium, which, in the ordinary course of things, could not be immediately replaced, and that this deficiency occasioned material inconvenience in mercantile transactions. That, in addition to this immediate effect, these circumstances also were represented to have induced bankers and others to keep in their hands a greater quantity of money than they thought necessary in the usual train of business, and that large sums were thus kept out of circulation, and great difficulty arose in procuring the usual advances on bills of exchange, particularly those of a long date. That many persons were said to be possessed of large stocks of goods which they could not at present dispose of; and on the credit of which they could not raise money. That this occasioned an interruption of the usual orders to manufacturers, which, circumstanced together with the interruption of the means by which they were enabled to make their weekly payments, tended to prevent the employment of a number of persons engaged in different manufactures.

That those evils were represented as likely rapidly to increase to a very serious extent, if some extraordinary means were not adopted to restore credit and circulation.

That, in consequence of these representations, he had desired a meeting of different gentlemen, in order to obtain

the best information in his power respecting the extent of the evil, and the possibility and propriety of any measure to remedy it. That after much discussion, all the gentlemen present seem to agree in a very strong opinion of the extent of the evil; though many objections at first occurred to any plan for remedying it. That in the result it was agreed to desire the gentlemen, whose names were mentioned in the paper now delivered, to meet the next day at the Mansion House, to consider more particularly the proposal for the issue of Exchequer Bills to a certain amount, to be advanced under proper regulations for the accommodation of such persons as might apply for the same, and likewise the objections to which such a proposal might be liable, and that the paper which he had laid before the Committee contained the opinion of this second meeting. The Lord Mayor informed the Committee, that, in conformity to the statement mentioned by the Chancellor of the Exchequer, eleven gentlemen met at the Mansion House on the 23rd, selected principally from that part of the preceding meeting who had expressed the greatest difficulty in finding out a remedy, and, after a long discussion upon the subject, they unanimously were of opinion, that the interposition of parliament was necessary; and that an issue of Exchequer Bills under certain regulations and stipulations was the best practical remedy.

The following is the account given by Macpherson in his *Annals of Commerce* (p. 266.) of the events of this remarkable period: —

"Of the wealth accumulated in nine peaceful years of "successful commerce, a very considerable portion was in-"vested in machinery and in land navigation; objects which, "though generally very productive in due time, require a "heavy advance of capital, and depend for their productive-"ness entirely upon the general prosperity of the trade of "the country. At this time also the concerns of both "merchants and manufacturers were much more widely ex-"tended, and were much greater than at any former period; "a natural effect of increasing prosperity, and sometimes a "cause of ensuing calamity. From the operation of causes "which I shall not pretend to explain, the unprecedented "number of bankruptcies in November 1792, was pro-"digiously exceeded in number and amount by those which "took place in the spring and summer of this year; 105 in "March, 188 in April, 209 in May, 158 in June, 108 in

"July. Many houses of the most extensive dealings and "most established credit failed; and their fall involved vast "numbers of their correspondents and connections in all "parts of the country. Houses of great respectability and "undoubted solidity, possessing ample funds, which actually "did in a short time enable them to pay every shilling of "their debts, were obliged to stop payment; and some "bankers, who, almost immediately on recovering from the "first panic, resumed their regularity of their payments, "were obliged to make a pause. Many, whom the tem-"porary assistance of even a moderate sum of money would "have enabled to surmount their difficulties, could not ob-"tain any accommodation; for in the general distress and "dismay every one looked upon his neighbour with caution, "if not with suspicion. It was impossible to raise any "money upon the security of machinery or shares of canals, "for the value of such property seemed to be annihilated in "the gloomy apprehensions of the sinking state of the "country, its commerce and manufactures; and those who "had any money, not knowing whom they could place it "with safety, kept it unemployed, and locked up in their "coffers.

"In consequence of an interview of several of the "principal merchants and traders with Mr. Pitt, the Prime "Minister, a meeting was held at the Mansion House, "April 23rd, to concert measures for putting a stop to this "terrible calamity; when the Lord Mayor, Messrs. Ander-"son, Bosanquet, Forster, Baring, Cheswell, Thornton, "Harman, Winshrop, Boddington, and Hunter, after much "deliberation, drew up the outlines of a plan for the revival "of commercial credit and the restoration of confidence, by "a parliamentary advance of Exchequer Bills, under proper "regulations, to houses of real capital, a copy of which was "immediately laid before Mr. Pitt.

"On the 8th May, in compliance with the recommend-"ation of the Committee, this was agreed to, and the ad-"vances were to be made to such of the merchants, traders, "bankers, &c., as should apply for them in sums not under "4000*l.* on security approved, or on the deposit of goods of "double the value of the sums advanced, at 5 per cent. This "was not one of those officious and ill-concerted inter-"ferences by which some governments ruin the interests of "commerce while they profess themselves the protectors of "it. The very first intimation of the intention of the legis-"lature to support the merchants operated all over the

"country like a charm, and in a great degree superseded the "necessity of the relief, by an almost instantaneous restora-"tion of mutual confidence.

"Some of the principal people of Liverpool had digested "a plan for supporting the credit of the merchants and "traders of that town, whose very extensive and com-"plicated concerns had involved them in perhaps a greater "share of the general calamity than any other place except "London. This proposal was to issue negotiable notes "secured on the estate of the Corporation, which is suffi-"ciently ample, and to employ them in support of the "credit of individuals, and it received the sanction of Par-"liament, who authorised the Corporation of Liverpool to "issue notes to the amount of 200,000*l*."

THE END.

London
Spottiswoode and Shaw,
New-street-Square.